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A SERIES OF READINGS IN THE CONTROL OF INDUSTRIAL DEVELOPMENT

EDITED BY

WALTON HALE HAMILTON

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PREFACE

The addition of this collection of readings to the long list of books in elementary economics is due to no premeditated design. It had assumed dimensions too formidable to be suppressed before the decision to publish it was made. It has emerged as a by-product of some years of experience with classes in current economic problems. Its beginning is to be found in the use, as supplementary material, of some readings quite different in kind from the matter presented in the texts. As time has passed, the purpose, viewpoint, subject-matter, and arrangement of the course have all undergone constant modification. The readings, accordingly, have also changed in purpose, in character, and in arrangement. They have increased in number until the collection eventually has come to assume pretentious size. Its growth has known its periods of gradual accretion and its times of stress and strain. The latter have resulted in the appearance of a collection of readings in mimeographed form nearly three years ago, a revision in printed form a year later, and the present re-revised edition. Its gradual emergence is the result, in part of the editor's developing conception of the subject, in part of class room experience. Unfortunately both of these forces impelling development are still in process. The editor can, accordingly, give no guaranty that for the indefinite future he will vouch for the present collection, either in its general outlines, or in its detailed arrangement. But, if there is to be no end, there must be, for a time at least, a respite from experimentation.

An attempt has been made to adapt these readings to the needs of an introductory course. This has been all the more necessary, because the greater part of them were not intended for this use. This adaptation has involved the elimination of extraneous matter, as well as the omission of discussions of subtle points. The latter, however valuable to advanced students, are likely to divert the minds of novices in economics from the main issues. In this process most of the readings have been reduced materially in length. In many cases the reduction has been quite drastic. Since this volume is not intended for reference purposes, the omissions have not been indicated in the text. The footnotes of the originals, except where imperatively demanded, have been dispensed with. Most of the titles are of the editor's selection. An attempt has been made, however, faithfully and accurately to preserve the viewpoint and

thought of the authors. Very little liberty has been taken with their words, the few verbal changes made being intended to establish coherence.

The dates in the bibliographical footnotes are intended to represent, not the copyrights of the books from which the readings are taken, but the first appearances of the selections in the forms in which they are given here.

A cursory examination of this volume will furnish sufficient evidence that the editor could not, no matter how ardent his desires, assume responsibility for the opinions expressed in the readings. For the volume as a whole his responsibility is only that of selecting efficient teaching materials and presenting faithfully the various elements and attitudes which are factors in current economic problems. He is, of course, responsible for the unsigned readings. But these were written, in lieu of selections by others for which he made diligent but futile search, to meet definite classroom needs. Several of them are quite at variance with his own opinions. He accepts, however, full responsibility for the opinions expressed in the various introductory sections.

The editor has used the book to meet two needs. The first is that of a course in current problems which complements a separate course in "principles." The second is in a course in general economics, covering both fields. In the former case he has relied upon it as the principal pedagogical instrument. In the latter he has used a text, one of the more unpretentious kind, to cover the work in value and distribution and for description of economic mechanism. In both cases he has used problems and exercises as supplementary material. The book has sufficient volume for a year's work. It should serve the need of one semester course, perhaps all the better, by presenting a wide variety of subjects from which to choose the particular topics which are to be discussed. If a part remain unused, so much the better; it will concretely illustrate the too often neglected truth that the subject of study is too large to be pent up in any course or textbook. Perhaps it is permissible to state in passing that the editor has in preparation a book of outlines, exercises, and problems covering the field of this volume. He expects to publish it within the next few months.

In conclusion the editor wishes to acknowledge his obligations to those who have helped to make the book what it is. He has drawn very largely upon the classroom experience of those who were associated with him at the University of Michigan in the course in "Current Economic Problems." He is also under particular obligations to his former colleague, Professor Fred M. Taylor, of the University of Michigan, to whom, more than to

anyone else, the publication of this volume is due; and to his colleagues, Professors Leon C. Marshall and Harold G. Moulton, of the University of Chicago, who have made many valuable suggestions about subject-matter and the arrangement of the material. His obligations to various publishers, who have generously permitted the use of much valuable copyrighted material, are expressed in detail in the bibliographical footnotes.

W. H. H.

University of Chicago
August 19, 1915

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INTRODUCTION

1. The Study of Current Economic Problems

In this day of rapidly changing values, particularly in economic life and thought, one cannot publish even so unpretentious a work as a book of readings without offering an explanation. The reader desires to know the scope of the volume, the principles governing the selection and arrangement of the materials which compose it, how it is to be used, and the objects which it is supposed to accomplish. In short, he asks for the *theory* of the book; and this is the purpose of these introductory pages to furnish.

The title commits the volume to the domain of *current* economic problems; but *currency* is not a mere matter of the transitory and ephemeral aspects of economic life, such as are noted in the morning paper. The most recent industrial merger, the latest bit of legislation, the court decision just announced do not mark out its province. The economic questions currently discussed and subject to immediate political action do not fix its bounds. Such things as these, distinct as they seem to be, are mere passing phases of larger and more complex problems. For their beginnings we must look into the far-distant past; their ends it is not yet vouchsafed to us to see. They are in process of gradual solution. The issues which they involve are much more intricate and subtle and much less comprehensible than their immediate aspects would seem to indicate. In form and content each is closely identified with the stage of industrial development which we have reached. Each involves something of almost every phase of our complicated social life. As separate problems they are merely aspects of a larger reality. If, then, we would understand them aright, we must study them in their historical setting as incidents in the development of society.

Their essential unity makes the word *problems* in the title unfortunate. The term seems to imply the separate treatment of a number of loosely connected questions. The editor disclaims such pretentiousness in his use of it. He has no intention of presenting an aggregation of summaries from many particular fields of economic knowledge. He purports to give no epitome of a dozen different volumes discussing as many different problems. In this book he can neither make use of the methods, nor accomplish the results, of advanced study. A proper understanding of each of these problems

is contingent upon a mastery of the workings of some very intricate economic machinery, a careful examination of a large amount of factual material, a painstaking analysis and interpretation of the phenomena of the field of study, and an elaboration of the conclusions drawn from it. To attempt such a task for each of the problems presented here in the space available is impossible; it would result in a mere formal presentation of half-truths. The object of this volume is of another kind; it is introductory. It attempts to present a general view of the whole as a necessary preliminary to a study of particular problems. So far as the latter are separately treated, they are presented as aspects of the larger whole.

A study of *problems* implies a search for *answers*. But, if this volume is to be judged by its ability to supply the earnest student with the *right answer* to each of the questions it discusses, it must indeed be found a dismal failure. The number of problems with which it deals precludes the detailed study which should precede the formation of "final" opinions. Besides, it is extremely doubtful whether the problems of industrial society can be settled dogmatically. As economists we can, and should perhaps, dogmatize about such principles as "the law of diminishing returns." But no economic problem can be resolved by the application of a single simple law; it is part of a situation much too complex and subtle and peculiar for that. Nor can it be made to yield to the magic that lies in a separation of all proposals into the two simple classes of the "good" and the "bad." Nor yet can its solution emerge as the result of a process of calculating resulting utilities and disutilities. Every proposal involves a distribution of costs and utilities between the present and the future, and between different classes in society. It has not one, but many, economic consequences, good and bad. It is sure to affect in countless ways, for better or for worse, the legal, political, ethical, religious, and social aspects of life. There is no magical instrument of measurement which can unlock such a riddle by promising that a certain definite surplus of good or ill will follow the application of a given proposal. Such values are incommensurable by any known instrument of calculation.

Yet, to make judgments in the face of these complex schemes of incommensurable values is the essence of the problems which we are to discuss. If their solutions are to be advanced, if industrial society is to develop, such judgments must be made. We cannot blink the fact that every proposal advanced involves both the good and the bad, the desirable and the undesirable. We cannot forget that to get some of the good things we want, we must give up other good things; that to escape some of the costs we are unwilling to

incur, we must endure others. In short, the "solution" of an economic problem involves *a choice between conflicting and incommensurable values.* The decision which it requires transcends the utmost that can be pent up in any strictly economic terms; it is contingent upon nothing less than our ideal of the socially desirable. But, if our efforts are to be effective, we must aim at the attainable. We must take full account of the limitations imposed upon the "solution" of problems by contemporary activities, prevailing institutions, and the attitudes of the various classes which make up society. In view of the large economic and intellectual environment surrounding them, economic problems are not suddenly to be disposed of; definite and final answers are not to be found for them. Rather they are gradually to be solved; they must have everdeveloping answers.

Upon this theory of *a choice between conflicting and incommensurable values* the readings which follow have been selected. They come from the most miscellaneous sources. They represent all the prominent attitudes, from the most conservative to the most radical, which condition the direction of our development. They are written by men possessed of the widest variety of opinion—economic, political, and sociological. They represent emotionally as well as intellectually (for feelings count as strongly as logic in the practical affairs of our everyday world) the conflicting views and arguments which contemporary society is bringing to bear upon its problems. They contain sound argument, good judgment, truth. They contain, too, much of overstatement, fallacious reasoning, and falsehood. But all are important for, sound or unsound, true or false, they are active elements of the problems we would solve. The reader should not too definitely attempt to separate them into the "true" and the "false." All thought is conditioned by its fundamental assumptions. Matters of personality, of class, of time, and of place manage to make their way into all intellectual work. Those who regard themselves as most immune are frequently most subject to these disturbing influences. Undoubtedly fundamental differences about economic programs frequently grow out of the possession or non-possession of the "facts." But far oftener they are due to conflicting attitudes which represent endeavors to find social good by generalizing individual interests. Some such study is necessary to a clear appreciation of the many conflicting values involved in the conscious judgments upon which the solution of our problems depend.

In quite another way, the miscellaneous character of these readings should prove valuable. They should help the reader to approach

economic questions without personal or class bias; they should lead him to see that his own opinions, despite the authority of their source and their venerable age, are not necessarily the expression of economic verity; and they should induce in him some willingness to hold in abeyance his judgment on economic questions. Vital and valid arguments in support of a proposition in which one thoroughly disbelieves should do much to prevent haste in the formation of his final judgments. Even erroneous arguments have their pedagogical value. Stimulation is by provocation as well as by suggestion; and it is hoped that more than one of the readings which follow will provoke the reader into a more careful formulation of his opinions and a clearer statement of his reasons for possessing them. Above all, it is hoped that in a constructive way they may give the beginnings of a flexible and developing economic program. Its fulness can, and should, come with time, study, and reflection.

It cannot be denied that many of the readings touch upon questions which many think cannot be discussed without "danger to society"; and that others present views which "threaten to subvert our institutions." Fortunately the disposition to exclude "dangerous subjects" and "dangerous views" from academic discussion is much less pronounced than it used to be. There seems to the editor little doubt that the danger is, if not altogether absent, at least unduly magnified. To the extent that it is real, however, an injunction against discussion is not the proper method of minimizing it. The safe course lies rather in getting students to think clearly in terms of economic situations and to recognize in this thinking the many fundamental economic values which usually fail of popular consideration. The erection of signs prohibiting trespass is the best method of enticing college students into forbidden fields of discussion. Much better is it to invite to this forbidden territory under proper guidance. It is hoped that the selections which follow will reveal some of these values and will do something to induce intelligent thought.

To the end of showing the setting of our current problems and the many conflicting values which they involve, the book has been made to consist of a large number of short readings rather than a small number of long ones. Whatever may be the value of the latter type of manual for advanced work, its usefulness in elementary instruction is largely its power of compelling labor. A small number of readings cannot at all cover the field adequately; they cannot furnish a clear perspective of the subject as a whole; they cannot introduce economic problems in their larger setting. They contain much extraneous matter; they include discussions of subtle points

lost on all except advanced students; and they are prone to cause the student to lose the main issues in a world of detail. They commit the fundamental error of attempting to exhibit the particulars before the student has seen the whole. They make it difficult for the average student to discriminate between the accidental and the essential; and too frequently their use leads to a substitution of heroic clerical work for intellectual exertion. In the readings here presented an attempt has been made to eliminate the non-essential and the confusing.

This induced simplicity is not intended to convey the idea that the problems involved are simple, and that social economics is a subject which can easily be "mastered." On the contrary, few teachers will be tempted to charge this volume with an elucidation of the merely obvious. On the contrary, the very difficulty of the subjects treated makes it necessary that the many and conflicting arguments be presented as simply and definitely as possible. One of the functions of the book is to show the difficulty and complexity of the problems. Perhaps nothing is doing more to complicate the solution of our problems at the present time and to prevent the elaboration of a definite program than the belief of so many people that these same problems are simple and easily understood, and that "evils" are responsive to simple prescriptions. To convey the idea of simplicity and intelligibility, when these are not of the subject discussed, is to fail on the very threshold of economic study.

In an introductory course, the primary desideratum is not the acquisition by the student of facts and formulas, which he can hand back at examination, having no further use for them. It is rather to induce on his part a developing appreciation of the situation as a whole and of the relation of institutions and problems to each other and to it. It is more desirable that he come to understand the subject than that he amass formal knowledge about it. It is preferable that he learn to think intelligently in terms of a complex industrial situation than that he acquire a vast collection of "principles" that formally explain its working. The readings are intended to supply not factual material upon which the student can be quizzed, but rather matter that will raise questions and provoke thought. They are intended to prepare for recitation by giving the instructor and the students something to discuss together. The function of the instructor is to direct and guide the discussion, and to see that the thought of the students is intelligent and intelligible.

It is no part of the function of this volume, therefore, to lighten the instructor's labors. Ease and a shifting of responsibility can better be found in the formal lecture or in quizzing from a text. The

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editor believes quite firmly that the value of any course in economics is pretty much what the instructor makes it. He is the factor of vital importance. If the course is to be successful in aiding the student properly to begin the long-to-be-continued process of getting a fair conception of the economic world and of formulating an economic program, it must be the instructor's *own* course. He alone knows the factors involved in his own classroom problem. He must determine its content, fix its arrangement, and shape the tools which he uses to its peculiar need. Books, problems, and other pedagogical devices are at best but instruments. If a book of this kind has any advantage over a formal text, it is in the freedom which it allows to instructor and student, both in making the most of the recitation and in the ordering of the course. Wherever it is used, unity must come, not from the book itself, but from the teacher's own plan, and from his skilful use of the complementary tools he employs. The function of this volume is to give not leisure, but intellectual liberty.

2. Economic Problems as Aspects of Social Development

It is in the economic world of here and now that we are interested. Amid its complex of activities, institutions, conventions, ideals, standards, and modes of thought we order our lives. Its multifarious and baffling problems are our problems—ours to "muddle" or to "solve." How we handle them will determine quite largely what the economic world of tomorrow is to be like. For these problems are aspects of our industrial system; they are incidents in the development of our economic society. They emerge, or assume new forms, as the larger whole develops. With its onward sweep severally they pass into oblivion, lose themselves in new problems, assume unfamiliar forms, or otherwise manage to get "solved." They are not distinct things; they cannot be detached from the larger scheme of affairs to which they belong. They cannot be disposed of in isolation, as if the universe were one thing and each of them another. They are intimately associated with each other, with the economic system to which they belong, and with the larger world, which includes the legal, political, ethical, social, and all other aspects of life economic and non-economic. To understand them aright we must know something of this larger whole in its current manifestations.

In its rapid development our society is approaching the end of what, in no invidious sense, we may call the exploitative period. Our development in the nineteenth century was dominated by our stores

of natural wealth and by the use of an expanding and developing machine technique. The century witnessed the conquest of a continent, seemingly possessed of never-failing resources. The gifts of forest, waterfall, stream, soil and mine, by the magic touch of modern technique, were transformed into a golden stream of wealth. The expanding system absorbed larger and larger volumes of capital and increment after increment of alien labor. Its object and end was prosperity.

This process of getting rich absorbed quite largely our attention and our energy. Our thought was for virgin fields for machine effort. Our impatience was at the slowness of our very rapid industrial development. Our powers of control, so far as they were consciously used, were aimed at speeding up. We made no inquisitive search into our legal arrangements, our fundamental institutions, or our ethical standards. We did not perceive that development in one aspect of life leaves incompatibilities that need attention. It did not readily occur to us that improvement should occur elsewhere than in the technique of production, the growth of business organization, and the expansion of the pecuniary system. In short, we neither tried to discover, nor succeeded in discovering, society. We had problems, of course—many more than we had need for. But they were concerned with removing the barriers that opposed the establishment of a pecuniary system on a nation-wide plan.

This neglect of the non-industrial side of life expressed itself most conspicuously in a formidable and overgrown individualism. Since we were growing wealthy, all was well. We rarely thought of attributing responsibility for what we did not like to society, institutions, conditions, or environment. Quite as rarely did we attribute prosperity to the abundance of our natural resources. We firmly believed that each individual "was master of his fate"; that "opportunity knocks once at every gate"; that "there is plenty of room at the top"; and that successful men are "self-made."

This habit of thought worked its way into the whole range of our institutions. A fundamental assumption of individualism was that all men were equal. A resulting principle of action was that the state should give "equal rights to all, and special privileges to none." Equality suggested the attainment of political wisdom by calculation. Accordingly the object of legislation was "the greatest good to the greatest number." Since each person possessed one, and only one, vote, it was evident that our government was a democracy. In ethics our conduct was measured by individualistic standards. In education, by setting up the system of free electives, we made the

individual student the best judge of the training that was good for him. In economics our attention was given very largely to the market; the distribution of wealth and proposals of social reform were alike treated as if they were mere questions of value theory; and we elaborated and generally accepted the doctrine that one "gets what he produces." Even our religious systems were characterized by an intense and dogmatic individualism.

It was, perhaps, inevitable that we should not escape looking at things too narrowly. We manifested a contempt for philosophy and general theory. We encouraged specialization, but overlooked the broad and general training which should underlie it. We investigated particular subjects without knowing the general fields to which they belonged. We attempted to resolve phenomena into general schemes without understanding the laws which govern the phenomena. We formulated, analyzed, and attempted to solve our problems as if they were so many distinct entities. We saw the whole only as an aggregation of parts, and society only as a collection of individuals.

Closely associated was a notion of social change in mechanical terms. When we became impatient with this or that, we demanded an immediate remedy. We turned to the state as the obvious agent, one which we professed to distrust, and demanded legislation. If our attention was not distracted by some new "abuse," we usually turned out the party in power if immediate results were not forthcoming. Even our reformers usually gave us panaceas for all social ills, or demanded a reconstruction of the whole scheme of life.

Many of our highest social values are associated with individualism. Its note must be retained to keep the system from being resolved into an orderly, mechanical, prosaic, and dull scheme of things. Without it, it is hard to see how society can most fully utilize its capacity for development. In the America of the nineteenth century it helped to solve the problems of a young society as perhaps nothing else could have done. The individual pluck, energy, and initiative which it called forth were just the qualities necessary to the gigantic and crude stage of development through which the country was passing. It remains in the present, however, in a very dominant form, thoroughly ingrained in our institutions and in the social philosophy of classes which occupy quite important positions in society.

But for some time we have been conscious that we are approaching the end of this exploitative period. We have by no means reached the end of our resources; but we have come to see that they are no longer boundless. It is evident that there is real danger of wasting

our patrimony. Opportunities for sudden wealth are no longer plentiful. We have awakened to the necessity of economy, of giving long and careful thought to our social arrangements. We are beginning to find out, too, that our prosperity has entailed its costs. We gave conscious thought to securing a well-developed machine-system, a large population, and a large measure of individual liberty, believing that these would bless us with wealth. We succeeded in securing these things. But we neglected to take thought for the cultural incidence of the industrial system. As a result we have acquired a number of things for which we did not ask, that may well be considered the costs of our material progress. Our urban life has its full complement of slums, overcrowding, vice and poverty. There is clearly evident a tendency toward a stratification of society on a pecuniary basis, with a funded-income class at the top and a proletariat of alien blood at the bottom. There is growing a spirit of protest based upon a philosophy quite foreign to that which underlies our cherished institutions. Our vast pecuniary system is making the lot of labor, and capital, too, for that matter, extremely insecure. Moreover, we are beginning to see that our prosperity is imposing its costs upon the next generation, in conditions and institutions which we did not will, in problems which we helped to raise but cannot solve, and in depleted resources with which to work out its social salvation.

As we realize these things, there grows up among us a reaction against the extreme individualism of the nineteenth century. We are imposing limitations upon what we conceive individual initiative and energy to be capable of accomplishing; we doubt if the ladder which leads to the top has its full number of rungs; all successful men are no longer "self-made." We occasionally even make excuses for the man who fails. We have discovered "environment," and speak quite frequently of "exceptional opportunities," "social conditions," and the "favor of fortune." We are beginning to associate those things which we do not like with an "overdeveloped individualism," and to see "grave dangers" in unrestricted liberty.

This change is manifesting itself in a changed attitude toward our institutions. Quite frequently we use the word "privilege" in connection with the activities of government. Seemingly forgetful of our former boasts, we are today demanding reforms which will make our government "democratic." We are not distrustful of the fundamental soundness of our legal institutions, such as property, contract, equality before the law, etc., but we are beginning to suspect that they bear too many signs of having been forged to meet

the needs of frontier and craft societies; that they are more consonant with the plow and the spinning-wheel than with the power-loom and the locomotive. We are qualifying ethical standards which we regard as valid with the adjective social. In education the elective system is giving way to a flexible curriculum adapted to the newer society. A spirit of group and class welfare is expressing itself in such voluntary associations as the trade and craft unions, and is beginning to permeate legislation. We are beginning to trust the state, and are no longer affrighted by the cry of paternalism. In economics we use the term "social value"; we have begun to insist that economic theory is not confined to value theory; and we are more clearly recognizing that distribution of wealth and projects of social reform are concerned with institutional arrangements. Our religious systems are more and more emphasizing the note of "social service."

With the reaction from individualism has come a protest against our habit of considering the particular apart from the general. We are beginning to learn that things in general matter; and that the reality of our problems lies in their connection with social life in its varied and multifarious aspects. We are realizing that specialization, to be anything more than clerical, must have a broad basis. We are coming to see that the whole is something quite different from the sum of its parts; that society is not a mere aggregation of individuals.

Quite naturally enough the impatience that comes from the newer view of things has enough of the older thought in it to place great reliance in mechanics. It wants results and wants them now. Instinctively it turns to the state and demands legislation. But, in spite of that, we are surely, if slowly, learning that there are decided limitations upon what can be accomplished by tinkering. We know that laws must be passed, and that there are many things which immediately they can be made to do. But we are beginning to understand that in many cases they produce their results, not from their direct enforcement, but from a series of reactions which they start, and these results can only gradually appear. We are learning, too, that there are other and more delicate instruments of control, such as the educational system, codes of professional ethics, occupational associations, and even conventions and traditions, that we may use in the furtherance of our schemes, and that these delicate instruments will reach many things too subtle and too minute to be touched by the bolder and cruder machinery of the state.

In view of this it is not surprising that we are at last learning that we do not have to be forever in a hurry. We must pay for what we get. Perfect societies are not El Dorados or Klondikes to

be stumbled upon. A Utopia, even if it can be realized, cannot be juggled out of a hat by a social magician. We must through development gradually assume the social form we desire. Only knowledge is obtained; wisdom is attained. Even our socialists, who, only yesterday, were promising us "a new heaven and a new earth," have learned that there is a tomorrow.

And withal, in our radicalism, if you choose to call it such, we are becoming more conservative. If we have begun to ask impertinent questions about classes, property, and social arrangements generally, it is not because we are condemning, but only because we are socially inquisitive. We would prove all things in order that we may hold fast to that which is good. Yet more clearly than ever before we realize the vastness, complexity, and even the mysteriousness of our social system. We know that we understand how various institutions and agents work very imperfectly. We know that many that seem to us to be without responsibility are intimately associated with some very important functions. We are not quite sure that we could create agencies which would perform the same functions more efficiently or with less cost. These things incline us to caution, to take easy steps, to examine results carefully before proceeding, and to use very flexible programs. But, if our knowledge is small, and if the difficulties are great, the call is for a greater determination, a more farsighted vision, a more careful, comprehensive, and patient study, and greater deliberation about ways and means.

In view of this particular crisis in our development we must consider our problems. We must recognize the part which the older society, the older institutional system, and the older individualistic thought have played and are still playing. We must as clearly recognize the newer tendencies, both in the institutional system and in the newer attitudes toward our economic arrangements. Many of these problems we shall find to be old. When the universe was contrived many antagonisms were left. The enigmas of rich and poor, of waste and poverty, of privilege and oppression, have been presented to us by the many ages which they have baffled. As likely as not we shall leave them as part of our heritage to succeeding generations. Some of them appeared with the machine-system, and have become more and more conspicuous as the newer technique conquered the continent. Of these are the problems connected with huge aggregates of wealth, such as railroads and capitalistic monopolies. Some come from incompatibilities between advancing and stationary aspects of social development. The legal problem involved in employer's liability is typical of this class. Some are

manifestations of a later stage of the machine-culture. Of this kind are the problems centering in institutional system which trade unionism threatens to create. Of some of these problems we have long been conscious. The change in our attitude toward our social system has brought others within our field of vision. Who knows but there are many others which are with us, but which we cannot see because of intellectual blindness? But, old or new, familiar or unfamiliar, evident or invisible, all of these problems are part and parcel of Modern Industrialism. They are all involved in the gigantic pecuniary system which knits together our social life. The oldest of them is with us a problem very different in form from its earlier prototype which confronted our ancestors. They are all aspects of the larger question, Can our society determine the direction of its own development?

To find an answer to such a question would involve a quest into all of life. Here we must modestly limit ourselves to a general survey of the current aspects of Modern Industrialism. Our procedure makes it imperative, first of all, clearly to realize that our system is developing and that in this development the various aspects of social life mutually influence each other. The Industrial Revolution, if broadly enough interpreted, can then be made to show us the peculiarities and problems of the stage in development which we have now reached. We can then quite definitely turn our attention to the problem of the control of the development of industrial society, by inquiring about our knowledge of the "forces" which cause development, the means of control we possess, and the theory of control of which we should make use. The partial control which we are to exercise over development is to come from our handling of particular problems. Accordingly we must next consider a number of somewhat different problems, always with a clear idea of their relations to each other and to the developing whole. The few which will be treated are typical of the many which confront us. These fall into two somewhat distinct groups, the first centering about the problem of the organization of industrial society, the second concerning themselves with the various industrial classes which make up the population.

The primary question in the first group is that of the mechanical perfection with which price organizes society. The problem is complicated by the rhythm of the business cycle. Associated with it is the more difficult question of whether such an organization, quite apart from its mechanical perfection, can be made to serve the ends we would have it serve. A parallel problem is that of the extent to which the economic entity should be made to correspond to the

political entity; this appears most clearly in the issues which center in the tariff. Internal problems of organization, of tremendous social consequence, particularly in the tendencies implicit in their gradual solution, are found in the regulation of railroads and capitalistic monopolies.

Of the second group of problems, perhaps the most comprehensive is that of the control of population, quantitatively and qualitatively, through immigration and through births. Its proper solution should do much to lessen the intensity of the other social problems. A second, somewhat less baffling, but still extremely difficult, is that of eliminating economic insecurity from the lot of the wage-worker. A third, perhaps most evident in the program of trade unionism, is concerned with the rise of group- and class-consciousness, the spirit of group solidarity implicit in so much of the recent social legislation, and the clash between the institutional systems of individualism and of collectivism. The progress implicit in a solution of these latter problems calls for an increase of state activity on behalf of the individual, and makes imperative the problem of finding new sources of revenue. And finally, whether ominous or prophetic, we need to note a rising spirit of protest which demands a radical reconstruction of our whole scheme of social life and values.

Such a quest promises no guaranteed solutions of perplexing problems. It will not yield magical formulas for disposing of the enigmas which have perplexed the generations. It will give no assurance that succeeding ages will have no baffling and bewildering questions to disturb their peaceful repose. It will furnish no open sesame to a social Utopia. On the contrary, quite likely it will show that the perfect society is far in the future. It may even convey the dismal lesson that our limited resources will ever prevent the emancipation of the sons of Adam from bondage to social economy. But the search should yield some positive results. It should put us in position to essay further quests into particular aspects of our industrial system. It should prevent our dissipating our energies in an attempt to realize the unattainable by impossible methods. It should save us from thraldom to social and economic alchemy. Even more important, it should show us that our problems are in process of gradual solution; that they have long-time aspects much more important than the immediate issues which we see; and that vision, as well as emotion, is called for in dealing with them. Here and there, too, we should pick up bits which together we can weave into a partial and tentative program. If our quest makes this beginning, it will have served its purpose.

I

THE ANTECEDENTS OF MODERN INDUSTRIALISM

The perplexing economic questions of the day, as we shall learn, are not simple little affairs which can be separated from the "prevailing system" and analyzed and "solved" in isolation. They are so closely related that a change in one affects many others. They are inseparable parts of that complex of institutions, traditions, conventions, and activities to which we attach the name Modern Industrialism, and they are intimately associated with the multifarious legal, political, economic, ethical, and social aspects of this larger system. It is, therefore, in view of this larger whole that our problems are what they are.

There is nothing singular in our possession of troublesome problems. They are the common heritage of the ages. When the universe was contrived enough of antagonism was left in it to keep some problems constantly before us. The sweep of change constantly adds new recruits to this array. It may be that somehow or other problems get "solved" it may be that they merely become obsolescent and, like old machinery, are "scrapped"; it may be that they are forced to surrender their places to newcomers; or it may be that they tend to lose their identity in that of other problems. Perhaps all of these things happen; but, however that may be, old problems tend to disappear. But, strangely or naturally enough, as you may choose to view it, we never have an end of problems. As old ones depart, new ones, without awaiting welcome, come forward. Some of these newcomers are old problems appearing in new forms; for, after all, there is much that is fundamental in life and institutions. The questions of efficiency, of poverty, of social classes, and of work and reward are as old as society. But some problems are new; and even the old ones are for us quite distinct from their predecessors—distinct in the economic status of the individuals affected, distinct in the scheme of values surrounding them, and distinct in the treatment for which they call.

All of these problems, old and new alike, are aspects of the development of society; they emerge or assume new forms as the social complex develops. They give evidence of a lack of compatibility somewhere between the many and various aspects of social life—between institution and institution, between activity and custom, between practice and ideal. Their conscious—or unconscious—solution is nothing else than a restoration of harmony between antagonistic elements. Since, too, growth is not uniform, their passing leads usually to the rise of new problems. Their "solution" has the further effect of contributing to the development of society; the process is advanced.

If, then, we are properly to understand current problems, we must first of all get some impression of our present "system." It is so much a part of our very lives and activities that we find it hard to think of it as "a" system, and are prone to view it as a part of the immutable universe itself. And, when active intellectual effort does point it out as only one of many systems, we often fail to see that it is in process of constant change. Clearly to understand—rather than to know—that it is only one among many possible systems and to see that it is persistently changing, even as we view it, let us try to catch a glimpse of it in process of development. In such a task we need neither general statements of the nature of its growth nor an intensive study of the "facts." Our concern is not with the past, but with the present; our interest is not in "events," but in the process. We want to see a system very unlike ours slowly giving way to the one with which we are familiar.

To that end we begin, in the readings below, with a consideration of the peculiar characteristics of the social "order" with which we are familiar. Among these its unity and the interdependence of its aspects are emphasized. For example, the influence of the ideals of the mediaeval church upon industrial development suggests many phases of this interdependence. The selections which follow on manorial and gild economy furnish material for a comparison of the spirit, values, activities, and institutions of our present system with others quite unlike it. Additional material for the same purpose is available in the selections devoted to mediaeval commercial development, policy, and theory. The readings also show that there is much in common between the social and industrial life of mediaevalism and the nineteenth century. The theory of the stewardship of wealth is to be found in modern sociology as well as in mediaeval theology; Italy in the fourteenth century faced many urban problems which are quite modern; the mediaeval artisan was familiar with the art of "soldiering"; few moderns could teach many new tricks of trade to the mediaeval craftsman; and there is much of modern plausibility in the mercantilist confusion of personal gain and social good.

Quite as important is the evidence furnished by these readings of a movement toward the "modern" system. The very ideals of an unworldly church were leading toward a material and humanistic culture; priestly inhibitions of usury, reinforced by superstitious stories of the torment in store for the money-lender, were increasingly impotent to remove the lure of jingling guineas promised by commercial ventures; the manor, a miniature world in itself, was losing its identity, and the gild was breaking down in the face of a wider and wider organization of industry; the commercial note of pecuniary profit was becoming more and more dominant; and the larger society was substituting the magic of price for personal relation as the means of organization. Developing society, at first unlike ours, was coming nearer and nearer to the system we know. Only the single movement of the Industrial Revolution was necessary to make it assume the form with which we are so familiar.

A. IDEALS UNDERLYING INDUSTRIAL DEVELOPMENT

1. The Essential Characteristics of Modern Industrialism

An understanding of the nature of Modern Industrialism is essential to an intelligent grasp of its problems and a rational attempt at their solution. Such an understanding comes most easily from a study of the process by which modern industrial culture has come to be what it is. Like all historical work of value, such a study must have a definite goal before it. It must aim to reveal those institutions, those intellectual and emotional forces, which have given character to the prevailing system, which are responsible for its problems, and which condition their solution. For that reason it is best to begin the historical account of modern culture with a brief statement of its essential characteristics.

Modern Industrialism is a peculiar culture; it is a thing apart. Nothing like it has previously existed. The Chinese system of the Far East, clinging tenaciously to the past, has developed a system which is a sprawling, conglomerate fact. The nearer Orient, India,

for instance, has repressed self-assertion, has subordinated the material side of social life, and has produced, as if from a mould, a rigidly hard social system. Even the European states of the ancient world failed to organize themselves as industrial and social wholes. For example, the Greeks showed nowhere their inability at organization more clearly than in failing to associate the individual's gain from his labor with a service to a larger group. The unity achieved by Rome was a mechanical, not an organic, unity. Both alike despised manual labor, and, for that reason, failed to lay an adequate foundation for a permanent industrial system. How distinct is Modern Industrialism is revealed by a brief citation of some of its peculiar aspects. The list mentioned below is not intended to be all comprehensive and the characteristics mutually exclusive. It is merely a statement of some of the charactertistics of our system which the student of current economic problems should keep clearly in mind.

First, America and Western Europe, Christendom, in fact, constitutes a single industrial society. Differences in race, language, government, and religious creed are almost negligible in comparison with what the Western World has in common. Even where these differences exist, the basic elements of these institutions are much the same. As ideal or actuality universality has long been a characteristic of the system. The Roman Empire was universal. When the earthly society disintegrated, it remained in idea as a universal, heavenly kingdom. The Catholic Church, patterned after this heavenly society, kept the ideal alive when more substantial unity was impossible. Towards the realization of universality society tended to be organized in the Catholic Church. And, at last, when the spell of Catholicism was broken, political, social, and particularly industrial and commercial institutions had tied the Western World together into a single industrial culture.

Second, Western Civilization is an extremely fluid culture. Few legal and authoritative restrictions are placed upon one's right to choose his own occupation. There are no hard and fast class lines. In the thought of the people there are practically none. Freedom of movement from place to place is allowed. In all of life's relations there is such fluidity that the adaptation of population, natural resources, and acquired capital to each other and to changed conditions is not only rapid, but is constantly in process. Briefly, Christian teaching, the presence of the opportunities afforded by the American continent, and the Industrial Revolution, have all emphasized this characteristic.

Third, ours is a humanistic and a material culture. A contempt for human life and the material means to well-being, a denial "of the world, the flesh, and the devil," a desire to escape from "the vain pomp and glory of the world," has never been an essential part of the attitude of Western peoples towards life. Even monasticism came to be based upon the theory that life in this world is worth while. This institution became a means through which other-world obligations, placed upon man by the peculiar conditions accompanying the disintegration of Roman society, could be vicariously satisfied by a small part of society, and the greater part could be released to live the better life of the world. Men who fervently sing, "For such a worm as I," and "This world's a wilderness of woe, This world is not my home," do not discover new continents, invent printing and the steam-engine, and erect world-wide industrial systems. Unlike Greeks and Romans, with us the idea of the worthwhileness of life has carried with it the idea of the dignity of manual toil, which has furnished an adequate foundation upon which to build an industrial culture.

Fourth, our culture is in a very high degree a pecuniary culture. More than by any one thing our economic conduct is actuated by the desire for pecuniary profit. We go into those occupations promising the highest pecuniary returns. Our capital breaks over national barriers when the rate of interest abroad mounts higher. Even back in the Middle Ages, penance, a sacrament of the church, was put on a pecuniary basis. Escape from the consequences of certain actions was allowed to those who had accumulated wealth. Thus the accumulation of wealth and the stratification of society upon a pecuniary basis was encouraged. Today in the court, in the church, in the press, in social circles, the man of wealth is treated with greater consideration because of his wealth. The three characteristics mentioned above, fluidity, humanism, and the dominance of the pecuniary motive have made our culture a highly industrial culture, for it is in industry that these motives find their fullest expression.

Fifth, our culture places the value of human actions and institutions in some end or institution over and beyond themselves. The justification of individual activity is not to be found in personal good. The actions of individuals are found worthy of praise only because of a larger and a greater "society," towards which they are as means to an end. Laissez-faire is defended not as a means to self-aggrandizement, but as a theory of social welfare. "Big business" talks in terms of "pay envelopes," "full dinner pails," and "general prosperity." But the end from which the value comes is

even less immediate than present society. The justification of the present is in the future. Back in the Middle Ages one's conduct was regulated by one's desire for his "soul's salvation." As men little by little ceased to have souls, and "life's fullness" came more and more to be recognized as life's end, the emphasis formerly attached to the other world associated itself with an ideal society which was striving for realization in the church. Even today, obscured as it may seem, an ideal future society is the potent force in evaluating conduct, individual and social. How potent is this idea of the future a few statements will show. We use "roundabout" processes of production. In legislation we seek to conserve the interests of capital, future goods, rather than give our attention to conserving immediate income. We speak in terms of progress and evolution. We condemn, as never before, industry and politics because of its "shortsightedness." We give serious consideration to such a radical program of industrial reform as socialism. The value of the present thing is in large part a value derived from a future ideal. Thus a spirit of idealism, seeing a realization of its purposes in a less immediate society is a very vital factor in determining the course of industrial development.

These several characteristics, material and emotional as all of them are, are vital, because they underlie our culture, condition our growth, and must be clearly recognized in any program of political, social, and industrial reform.

2. Christian Teaching and Industrial Development[1]

BY WILLIAM CUNNINGHAM

The debt of Christendom to ancient Rome is very deep, and centuries of gradual growth were required before mediæval could vie with ancient civilization in the external signs of material prosperity; but it would be a mistake to suppose that the new society was a mere reproduction of the old; it differed in every single feature. The contrast between the Roman Empire and mediæval Christendom was a difference not in skill or in organization merely, but in the whole spirit of the civilization. Though this element is very important it is so subtle that analysis does not readily detect it; but the best that the Greeks had attained may be taken as the starting point from which the new advance began. The Greek regarded material wealth as a means to an end, and as offering opportunities

[1]Adapted from *An Essay on Western Civilization in Its Economic Aspects,* II, 6–10, 35–36 (1900).

for the cultured life of free men in a City-State. A high respect for the dignity of man and the possibilities of human nature as essentially political, dominated his attitude toward the material world, and the pursuit of agriculture, commerce, and industry.

Christian teaching carried this Greek conception of the supreme worth of human life much farther by presenting it in its supernatural aspects. The doctrine of the Incarnation asserted that the human body had afforded an adequate medium for the manifestation of the divine nature; the doctrine of the Resurrection held out a sure and certain hope of personal immortality for the human soul. Christianity thus involved a very high view of human life. The supreme dignity of man as man was set forth by Christian teaching and the conscious and habitual subordination of material things to human ideals and aspirations was carried further than it had ever been before.

One of the gravest defects of the Roman Empire lay in the fact that its system left little scope for individual ends, and tended to check the energy of capitalists and laborers alike. But Christian teaching opened up an unending prospect before the individual personally, and encouraged him to diligence and activity by an eternal hope. Nor did such a concentration of thought on a life beyond the grave divert attention from secular duties. Christianity brought out new motives for taking them earnestly. The Christian monk was deprived of civil rights, and was absolutely at the beck and call of his superior. But there was no degradation in monastic obedience, since it was voluntarily undertaken by a freeman as a discipline through which he might attain the noblest destiny.

In fact the chief claim of the monks to our gratitude lies in this that they helped to diffuse a better appreciation of the duty and dignity of labor. By the "religious" manual labor was accepted as a discipline which helped them to walk in the way of eternal salvation; it was not undertaken for the sake of reward, since the proceeds were to go for the use of the community or the service of the poor; it was not viewed as drudgery that had to be gone through from dread of punishment. There was neither greed of gain, nor the reluctant service of the slave, but simply a sense of a duty to be done diligently unto the Lord.

The acceptance of this higher view of the dignity of human life as immortal was followed by a fuller recognition of personal responsibility. Christianity introduced a new sense of duty in regard to the manner of using material things. The wealth of the old world had been wasted in the perpetuation of regal pride and the gratification of personal luxury. Provinces had been despoiled and ruined

and their resources exhausted rather than developed. Christianity protested against any employment of wealth that disregarded the glory of God and the good of man.

This then was the characteristic difference between the ancient civilization and the new order which was beginning to flourish in the twelfth century. These principles, even though imperfectly realized, help us to understand the character of modern civilization. A capricious and arbitrary ruler had been hailed with divine honors in ancient times; in the Middle Ages the supremacy of Eternal and Supernatural Authority over all human beings was maintained. The Christian doctrine of price, the Christian condemnation of gain at the expense of another man, affected all the mediæval organizations of municipal life and regulation of intermunicipal commerce, and introduced marked contrasts to the conditions of business in ancient cities. The Christian appreciation of the duty of work rendered the lot of the mediæval villein a very different thing from that of the slave in the ancient empire. The responsibility of proprietors was so far insisted on as to place substantial checks on tyranny of every kind. For these principles were not mere pious opinions, but effective maxims in practical life.

B. MANORIAL AND GILD ECONOMY

3. The Manor, a Self-Sufficient Economy[2]

BY WILLIAM J. ASHLEY

Till nearly the end of the fourteenth century, England was a purely agricultural country. Such manufactures as it possessed were entirely for consumption within the land; and for goods of finer qualities it was dependent upon importation from abroad.

In the eleventh century, and long afterwards, the whole country, outside the larger towns, was divided into manors, in each of which one person, called the lord, possessed certain important and valuable rights over all the other inhabitants. Let us picture to ourselves an eleventh-century manor in Middle or Southern England. There was a village street, and along each side of it the houses of the cultivators of the soil, with little yards around them: as yet there were no scattered farmhouses, such as were to appear later. Stretching away from the village was the arable land, divided usually into three great fields, sown, one with wheat, one with oats or beans, while one was left fallow. The fields were sub-divided

[2]Adapted from *An Introduction to English Economic History and Theory*, I, 5–49 (1894).

into "furlongs;" and each furlong into acre or half-acre strips, separated, not by hedges, but by "balks" or unploughed turf; and these strips were distributed among the cultivators in such a way that each man's holding was made up of strips scattered up and down the three fields, and no man held two adjoining pieces. Each holder was obliged to cultivate his strips in accordance with the rotation of crops observed by his neighbors. There were also meadows, enclosed for hay-harvest, and divided into portions by lot, or rotation, or custom, and after harvest thrown open again for the cattle to pasture upon. In most cases there was also some permanent pasture or wood, into which the cattle were turned, either "without stint," or in numbers proportioned to the extent of each man's holding.

The land was regarded as the property, not of the cultivators, but of a lord. It was divided into that part cultivated for the immediate benefit of the lord, the demesne or inland, and that held of him by tenants, the land in villenage, the latter being usually about two-thirds of the whole. The demesne consisted partly of separate closes, partly of acres scattered among those of the tenants in the common fields. Of the land held in villenage, the greater part was held in whole or half virgates. The virgate was a holding made up of scattered acre or half-acre strips in the three fields, with proportionate rights to meadow and pasture; and its extent, varying from sixteen to forty-eight acres, was usually thirty acres. The holders of such virgates formed an estate socially equal among themselves, and all of them were under the same obligations of service to the lord.

The principal services which the lord exacted of the villein were, first, a man's labor for two or three days a week throughout the year, known as week work, or daily works, and second, additional labor for a few days at spring and autumn ploughing and at harvest. On such occasions the lord demanded the labor of the whole family, with the exception of the housewife. Besides these, there were usually small quarterly payments to be made in money, and miscellaneous dues in kind, so many hens and eggs, and so many bushels of oats at different seasons; as well as miscellaneous services, of which the most important is carting. During the boondays it was usual for the lord to feed the laborers.

The fundamental characteristic of the manorial group, regarded from the economic point of view, was its self sufficiency, its social independence. The same families tilled the village fields from father to son. Each manor had its own law courts for the maintenance of order. Then as now, every village had its own church; with this

advantage or disadvantage, that the priest did not belong to a different social class from his parishioners. The village included men who carried on all the occupations and crafts necessary for every-day life. There was always a water or wind-mill which the tenants were bound to use, paying dues which formed a considerable part of the lord's income. Many villages had their own blacksmith and carpenter, probably holding land on condition of repairing the ploughs of the demesne and the villagers.

Thus the inhabitants of an average English village went on, year in, year out, with the same customary methods of cultivation, living on what they produced, and scarcely coming in contact with the outside world. The very existence of towns, indeed, implied that the purely agricultural districts produced more than was required for their own consumption; and corn and cattle were regularly sent, even to distant markets. But the other dealings of the villages with the outside world were few. First, there was the purchase of salt, an absolute necessity in the mediæval world, where people lived on salted meat for five months in the year. Second, iron was continually needed for the ploughs and other farm implements. Third, when a fresh disease, the scab, appeared among the sheep, tar became of great importance as a remedy. Perhaps the only other recurring need, which the village could not itself supply, was that of millstones.

Such were the chief characteristics of the manorial group as a whole, self-sufficiency and corporate unity. Now let us look at the position of the individual members in the group. Some had risen to the position of free tenants, but the great majority had continued to hold by servile tenure. Of the position of this great majority the characteristic was permanence, with its disadvantages and also with its advantages.

It is instructive to compare the village as we have seen it with the village of today. In one respect there might seem to be a close resemblance. Then, as usually now, the village was made up of one street, with a row of houses on either side. But the inhabitants of the village street now are the laborers and artisans with one or more small shop-keepers. The farmers live in separate homesteads among the fields they rent, and not in the village street. Then all the cultivators of the soil lived side by side. Second, notice the difference as to the agricultural operations themselves. Now each farmer follows his own judgment in what he does. But the peasant-farmer of the period we have been considering was bound to take his share in a common-system of cultivation, in which the time at which everything should be done and the way in which everything

should be done was regulated by custom. A further difference is seen in the relations of lord and tenant as to the cultivation. Nowadays either the landlord does not himself farm any land in the parish, or his management of it is independent of the cultivation of any other land by tenants. But then almost all the labor on the demesne was furnished by the villein tenants, who contributed ploughs, oxen, and men. Compare finally the classes in the manor, with those in the village today. In a modern parish there will usually be a squire, some three or four farmers, and beneath them a comparatively large number of agricultural laborers. But in the mediæval manor, much the greater part of the land was cultivated by small holders. Between the lord of the manor and the villein tenants there was, indeed, a great gulf fixed. But there was nothing like the social separation of classes of actual cultivators that exists today.

It may be well to note the non-existence in the village group of certain elements which modern abstract economics is apt to take for granted. Individual liberty, in the sense in which we understand it, did not exist; consequently there could be no complete competition. The payments made by the villeins were not rents in the abstract economist's sense: for the economist assumes competition. The chief thought of lord and tenant was, not what the tenant could possibly afford, but what was customary. And, finally, there was as yet no capital in the modern sense. Of course there was capital in the sense in which the word is defined by economists, "wealth appropriated to reproductive employment," for the villeins had ploughs, harrows, oxen, horses. But this is one of the most unreal of economic definitions. As has been well said, by capital we mean more than this; we mean a store of wealth that can be directed into new and more profitable channels as occasion arises. In that sense the villeins certainly had no capital.

4. Wage-Work and the Handicraft System[3]

BY CARL BÜCHER

When the land owned by a family becomes divided up and no longer suffices for its maintenance, a part of the rural population begins to produce for the market. At first the necessary raw material is gained from *their* own land or drawn from the communal forests; later on, if need be, it also is purchased. All sorts of allied

[3]Adapted from *Industrial Evolution*, 162–172. Translated from the third German edition by S. Morley Wickett. Copyright by Henry Holt & Co. (1900).

productions are added; and thus there develops an endlessly varied system of peasant industry on a small scale.

But the evolution may take another course, and an independent professional class of industrial laborers arises and with them the industrial system of wage-work. Whereas all industrial skill has hitherto been exercised in close association with property in land and tillage, the adept house-laborer now frees himself from this association, and upon his technical skill founds for himself an existence that gradually becomes independent of property in land. But he has only his simple tools for work; he has no business capital. He therefore always exercises his skill upon raw material furnished him by the producer of the raw material, who is at the same time the consumer of the finished product.

Here two distinct forms of this relationship are possible. In one case the wage-worker is taken temporarily into the house, receives his board and, if he does not belong to the place, his lodging as well, together with his daily wage; and leaves when the needs of his customer are satisfied. We may designate this whole industrial phase as that of itinerancy, and the laborer carrying on work in this manner as an itinerant. The dressmakers and seamstresses whom our women are accustomed to take into their houses may serve as an illustration. On the other hand the wage-worker may have his own place of business, and the raw material be given out to him. For working it up he receives a piece-work wage. In the country the miller and the baker working for a wage are examples. We will designate this form of work home-work. It is met with chiefly in industries that demand permanent means of production, difficult to transport. Both forms of work are still very common in all parts of the world. The system can be tracted in Babylonian temple records; it can be followed in literature from Homer down through ancient and mediæval times to the present day. These two forms of wage-work have different origins. Itinerant labor is based upon the exclusive possession of aptitude for a special kind of work, home-work upon the exclusive possession of fixed means of production. Upon this basis there arise all sorts of mixed forms between home-work and wage-work. The itinerant laborer is at first an experienced neighbor whose advice is sought in carrying out an important piece of work, the actual work, however, still being performed by members of the household. Even later it is the practice for the members of the customer's family to give the necessary assistance to the craftsman. In the case of home-work the latter tradesman is at first merely the owner of the business plant and technical director of the production, the customer doing the actual work. This frequently remains true in the country today with oil-presses, flax-mills, and cider-mills.

From the economic point of view the essential feature of the wage-work system is that there is no business capital. Neither the raw material nor the finished industrial product is for its producer ever a means of profit. The character and extent of the production are still determined in every case by the owner of the soil, who produces the raw material; he also superintends the whole process of production. From the sowing of the seed until the moment the bread is consumed the product has never been capital, but always a mere article for use in course of preparation. No earnings of management and interest charges or middleman's profits attach to the finished product, but only wages for work done.

Under certain social conditions this is a thoroughly economic method of production. It secures the excellence of the product and the complete adjustment of supply to demand. But it forces the consumer to run the risk attaching to industrial production, as only those needs that can be foreseen can find suitable and prompt satisfaction, while a sudden need must always remain unsatisfied. The system has also many disadvantages for the wage-worker. Among these are the inconveniences and loss of time suffered in his itinerancy from place to place; also the irregularity of employment, which leads, now to the overwork, now to the complete idleness, of the workman.

In the Middle Ages wage-work greatly facilitated the emancipation of the artisan from serfdom and feudal obligations, as it required practically no capital to start an independent business. It is a mistake still common to look upon the class of gild handicraftsmen as a class of small capitalists. It was in essence rather an industrial laboring class, distinguished from the laborers of today by the fact that each worked not for a single employer but for a large number of consumers. The supplying of the material by the customer is common to almost all mediæval handicrafts; in many instances, indeed, it continued for centuries, even after the customer had ceased to produce the raw material himself and must buy it. The furnishing of the raw material by the master is a practice that takes slow root; at first it holds only for the poorer customers; but later for the wealthy as well. Thus arises handicraft; but alongside it wage-work maintains itself for a long time.

All the important characteristics of handicraft may be summed up in the single expression custom production. It is the method of sale that distinguishes this industrial system from all later ones. The handicraftsman always works for the consumer of his product, whether it be that the latter by placing separate orders affords the occasion for the work, or the two meet at the weekly or yearly mar-

ket. As a rule the region of sale is local. The customer buys at first hand, the handicraftsman sells to the actual consumer. This assures a proper adjustment of supply and demand and introduces an ethical feature into the whole relationship; the producer in the presence of the consumer feels responsibility for his work.

With the rise of handicraft a wide cleft appears in the process of production. Hitherto the owner of the land has conducted the whole process; now there are two classes of economic activity, each of which embraces only a part of the process of production, one producing the raw material, the other the manufactured article. Handicraft endeavored to bring it about that an article should pass through all its stages of production in the same workshop. In this way needed capital is diminished and frequent additions to price avoided.

The direct relationship of the handicraftsman and the consumer of his products made it necessary that the business remain small. Whenever any one line of handicraft threatens to become too large, new handicrafts split off from it and appropriate part of the sphere of production. This is the mediæval division of labor, which continually creates new and independent trades.

Handicraft is a phenomenon peculiar to the town. Peoples which, like the Russians, have developed no real town life, know likewise no national handicraft. And this also explains why, with the formation of large centralized states and unified commercial territories, handicraft was doomed to decline.

5. Ordinances of the Gild Merchant of Southampton[4]

1. In the first place, there shall be elected from the Gild Merchant, and established, an alderman, a steward, a chaplain, four skevins, and an usher. And it is to be known that whosoever shall be alderman shall receive from each one entering into the Gild fourpence; the steward, twopence; the chaplain, twopence; and the usher, one penny. And the Gild shall meet twice a year: that is to say, on the Sunday next after St. John the Baptist's day, and on the Sunday next after St. Mary's day.

2. And when the Gild shall be sitting no one of the Gild is to bring in any stranger, except when required by the alderman or steward.

3. And when the Gild shall sit, the alderman is to have, each night, so long as the Gild sits, two gallons of wine and two candles,

[4]Adapted from University of Pennsylvania, *Translations and Reprints from the Original Sources of European History, Vol. II, No. 1, English Towns and Gilds,* 12–17 (about 1300).

and the steward the same; and the four skevins and the chaplain, each of them one gallon of wine and one candle, and the usher one gallon of wine.

4. And when the Gild shall sit, the lepers of La Madeleine shall have of the alms of the Gild, two sesters of ale, and the sick of God's House and of St. Julian shall have two sesters of ale. And the Friar's Minors shall have two sesters of ale and one sester of wine. And four sesters of ale shall be given to the poor wherever the Gild shall meet.

5. And when the Gild is sitting, no one who is of the Gild shall go outside of the town for any business, without the permission of the steward. And if any one does so, let him be fined two shillings, and pay them.

6. And when the Gild sits, and any gildsman is outside of the city so that he does not know when it will happen, he shall have a gallon of wine, if his servants come to get it.

9. And when a gildsman dies, his eldest son or his next heir shall have the seat of his father, or of his uncle, if his father was not a gildsman, and of no other one; and he shall give nothing for his seat. No husband can have a seat in the Gild by right of his wife, nor demand a seat by right of his wife's ancestors.

10. And no one has the right or power to sell or give his seat in the Gild to any man.

19. And no one in the city of Southampton shall buy anything to sell again in the same city, unless he is of the Gild Merchant or of the franchise. And if anyone shall do so and is convicted of it, all which he has so bought shall be forfeited to the king.

20. And no one shall buy honey, fat, salt herrings, or any kind of oil, or millstones, or fresh hides, or any kind of fresh skins, unless he is a gildsman; nor keep a tavern for wine, nor sell cloth at retail, except in market or fair days; nor keep grain in his granary beyond five quarters, to sell at retail, if he is not a gildsman; and whoever shall do this and be convicted shall forfeit all to the king.

21. No one of the Gild ought to be partner or joint dealer in any of the kinds of merchandise before mentioned with anyone who is not of the Gild, by any manner of coverture, or art, or contrivance, or collusion, or in any other manner.

23. And no private man nor stranger shall bargain for or buy any kind of merchandise coming into the city before a burgess of the Gild Merchant, so long as the gildsman is present and wishes to bargain for and buy this merchandise.

24. And anyone who is of the Gild Merchant shall share in all merchandise which another gildsman shall buy or any other person,

whoever he is, if he comes and demands part and is there where the merchandise is bought, and also if he gives satisfaction to the seller and gives security for his part.

63. No one shall go out to meet a ship bringing wine or other merchandise coming to the town, in order to buy anything, before the ship be arrived and come to anchor for unloading; and if any one does so and is convicted, the merchandise which he shall have bought shall be forfeited to the king.

6. Ordinances of the White-Tawyers[5]

In honour of God, of Our Lady, and of All Saints, and for the nurture of tranquillity and peace among the good folks the Megucers, called white-tawyers, the folks of the same trade have, by assent of Richard Lacer, Mayor, and of the Aldermen, ordained the points under-written.

In the first place, they have ordained that they will find a wax candle, to burn before Our Lady in the Church of Allhallows, near London wall.

And if any one of the said trade shall depart this life, and have not wherewithal to be buried, he shall be buried at the expense of their common box. And when any one of the said trade shall die, all those of the said trade shall go to the vigil, and make offering on the morrow.

Also, that no one of the said trade shall induce the servant of another to work with him in the said trade, until he has made a proper fine with his first master, at the discretion of the said overseers, or of four reputable men of the said trade. And if anyone shall do to the contrary thereof, or receive the serving workman of another to work with him during his term, without leave of the trade, he is to incur the said penalty. Also, that no one shall take for working in the said trade more than they were wont heretofore.

7. Preamble to the Ordinances of the Gild of the Tailors, Exeter[6]

To the worship of God and of our Lady Saint Mary, and of St. John the Baptist, and of all Saints: These be the Ordinances made and established of the fraternity of craft of tailors, of the city of Exeter, by assent and consent of the fraternity of the craft aforesaid gathered there together, for evermore to endure.

[5]Adapted from University of Pennsylvania, *ibid.*, 23–25 (Fourteenth Century).

[6]Adapted from University of Pennsylvania, *ibid.*, 26 (1466).

C. MEDIÆVAL COMMERCE

8. A Definition of Commerce[7]

BY J. DORSEY FORREST

Attempts to study the development of commerce have usually been unsatisfactory because they have failed to distinguish between real commercial activity and the mere external mechanism of ships and roads and travelers. The real history of commerce which will some time be written will give some account of the production which has fed commerce, as well as a description of the routes, and of some actual exchanges which indicate that commerce had actually been going on. Such phenomena of the mechanism of trade are worthy of note, but only as guiding the student to a deeper study of the dynamical phenomena of which these are but surface indications. Real commerce represents a differentiation of function by which the diverse parts of society come into complex and organic relations with one another.

9. The Attitude of the Mediæval Church toward Commerce[8]

BY WILLIAM J. ASHLEY

The teaching of the Gospel as to worldly goods had been unmistakable. It had repeatedly warned men against the pursuit of wealth, which would alienate them from the service of God and choke the good seed. It had in one striking instance associated spiritual perfection with the selling of all that a man had that he might give it to the poor. It had declared the poor and hungry blessed, and had prophesied woes to the rich. Instead of anxious thought for the food and raiment of the morrow, it had taught trust in God; instead of selfish appropriation of whatever a man could obtain, a charity which gave freely to all who asked. And in the members of the earliest Christian Church it presented an example of men who gave up their individual possessions, and had all things in common.

We cannot wonder that, with such lessons before them, a salutary reaction from the self-seeking of the pagan world should have led the early Christian Fathers totally to condemn the pursuit of gain. It took them further—to the denial to the individual of the

[7]Adapted from *The Development of Western Civilization*, 194. Copyright by the University of Chicago (1906).

[8]Adapted from *An Introduction to English Economic History and Theory*, I, 126–132 (1894).

right to do what he liked with his own, even to enjoy in luxury the wealth he possessed. "What injustice is there in my diligently preserving my own, so long as I do not invade the property of another?" "Shameless saying!" says S. Ambrose. "My *own,* sayest thou? what is it? from what secret places hast thou brought it into this world? When thou enterest into the light, when thou camest from thy mother's womb, what wealth didst thou bring with thee? That which is taken by thee, beyond what would suffice to thee, is taken by violence. Is it that God is unjust, in not distributing to us the means of life equally, so that thou shouldst have abundance while others are in want? It is the bread of the hungry thou keepest, it is the clothing of the naked thou lockest up; the money thou buriest is the redemption of the wretched." To seek to enrich one's self was not, simply, to incur spiritual risk to one's own soul; it was in itself unjust, since it aimed at appropriating an unfair share of what God had intended for the common use of men. If a man possessed more than he needed, he was bound to give his superfluity to the poor; for by natural law he had no personal right to it; he was only a steward for God.

If, however, to seek to enrich one's self was sinful, was trade itself justifiable? This was a question which troubled many consciences during the Middle Ages. On the one hand the benefits which trade conferred on society could not be altogether overlooked, nor the fact that with many traders the object was only to obtain what sufficed for their own maintenance. On the other hand they saw that trade was usually carried on by men who had enough already, and whose chief object was their own gain: "If covetousness is removed," urges Tertullian, "there is no reason for gain, and, if there is no reason for gain, there is no need of trade." Moreover, as the trader did not seem himself to add to the value of his wares, if he gained more for them than he had paid, his gain, said S. Jerome, must be another's loss; and, in any case, trade was dangerous to the soul, since it was scarcely possible for a merchant not sometimes to act deceitfully. To all these reasons was added yet another. The thought of the supreme importance of saving the individual soul, and of communion with God, drove thousands into the hermit life of the wilderness, or into monasteries; and it led even such a man as Augustine to say that "business" was in itself an evil, for "it turns men from seeking true rest, which is God."

In the eleventh century began a great moving of the stagnant waters. The growth of towns, the formation of merchant bodies, the establishment of markets,—even if they did no more than furnish the peasant and the lord of the manor with a market for their

surplus produce,—brought men face to face with one another as buyer and seller in a way they had not been before. Hence economic questions, especially such as concerned the relations of seller and buyer, of creditor and debtor, became of the first importance. To deal with these new questions a new jurisprudence presented itself, —the jurisprudence based on the revived study of Roman law. The Roman law, in the finished form in which the codification of Justinian presented it, rested on a theory of absolute individual property which was entirely alien to the usages of early Teutonic peoples, among whom community of ownership, or at any rate community in use, was still a prevalent custom; and it recognized an unlimited freedom of contract, which may have been suitable to the active commerce of the Mediterranean, but was sure to be the instrument of injustice when appealed to in the midst of more primitive social conditions.

With these new dangers before them, churchmen began once more to turn their attention to economic matters, and to meet what they regarded as the evil tendencies of the Roman law, "the principle of the world," by a fresh application of Christian principles. On two doctrines especially did they insist,—that wares should be sold at a just price, and that the taking of interest was sinful. They enforced them from the pulpit, in the confessional, in the ecclesiastical courts; and by the time that the period begins of legislative activity on the part of the secular power, these two rules had been so impressed on the consciences of men that Parliament, municipality, and gild endeavoured of their own motion to secure obedience to them.

10. The Contribution of the Church to Commercial Development[9]

BY J. DORSEY FORREST

A necessary prerequisite of commercial development was the establishment of an efficient agricultural system. In perfecting the agricultural organization the ecclesiastical domains served as models to the smaller lay proprietors. The monasteries depended more on rational organization than on personal power, and kept alive the more efficient methods employed by the Romans in earlier days. The monasteries usually established themselves on waste lands, for the prime object of the monks was retirement. After the invasions they had no difficulty in finding waste lands even in regions which

[9]Adapted from *The Development of Western Civilization,* 176–179, 190–194. Copyright by the University of Chicago (1906).

had been most highly cultivated. Great saints could live holy lives as hermits; but when masses of men were gathered together, it became necessary for the leaders to lay down rules for practical activity. The poverty from which many of the monks came, the reverence of the Church for the Son of the Carpenter, and the necessity of labor for a means of subsistence, all combined to give manual labor a high moral value in the monasteries. Accordingly monastic rules enjoined the duty of manual labor as a moral discipline.

A second prerequisite of commerce was the division of labor and the development of the crafts. In time neighboring lords would give vast domains, with their villeins, to the monasteries in return for prayers. As the monasteries thus grew wealthy, a revolution came in the management of their internal affairs. All had to find a way to divide labor and to make some members of the community mere laborers. In feudal times this division was well advanced. For centuries the monks had kept alive many crafts, and the causes just referred to advanced these both in number and in technique.

In spite of the disorder which had troubled Europe from the time of the first invasion, there was never a time when commercial intercourse was entirely wanting. During the period of most complete disorganization the Jews carried on a casual trade in oriental luxuries and handled about all the money that circulated. United by faith and common traditions, in constant touch with co-religionists in other countries, they formed an organic body in the midst of universal dissolution. The very action of the church upon the lay society contributed to their prosperity. The canons of the councils in denying to Christians the right to exact usury assured to the Jews a monopoly of the money business. Through their intimate relations with the Mohammedans, they were able to communicate with the East at a time when no Christian could sail upon the Mediterranean. The Church condoned their offenses against Christian morality because their services as money-lenders and dealers in valuables were indispensable. They were found also dispersed throughout the country, and on the domains plied their trade as pawnbrokers among the villages and brokers for the lords. Though the business of the Jews had some importance as a stimulus to greater demands for luxuries, it can hardly be considered a part of the commerce of Europe. Such commodities as spices, perfumes, silks, tapestries, precious stones, and jewelry were of little importance in the social development of Europe.

Preparation for the revival of commerce was made by the Church. The importance of magic made it desirable to transport

sacred relics from place to place; and the need of pictorial services required the transportation of church furnishings from Byzantium and Italy to the less advanced communities. For the manufacture of glass and the erection of the earlier buildings artisans themselves had to be imported from the East and the South. There was also a constant intercommunication in certain sections through pilgrimages to noted shrines. When special festivals were held at these shrines, large numbers of pilgrims would be present at the same time. The provisioning of such a company would occasion considerable trade, and peddlars and traders would naturally join the pilgrims. Sometimes the monks were themselves traders. Sometimes men would bring their simple manufactures from domains in the neighborhood. In some instances the important fairs sprang up at these favorite shrines. But, aside from trade, the pilgrimages themselves kept up communication between different points. Again the superstitious awe in which the Church was held made it possible for priests and monks and messengers and pilgrims to travel from place to place as neither merchants nor soldiers could do. Thus the commerce of the Church and the travel inspired by the Church served to keep open routes which were closed to ordinary travelers, and to bring remote regions into communication with each other.

The episcopal cities were also centres of incipient commercial transactions. Since the bishop did not move from one domain to another to consume the products of each in turn, as the lay nobles did, the products of surrounding manors had to be transported to the residence of the bishop. Thus there was maintained a kind of industrial concentration that might form the basis for new city life. In these various ways the churches and monasteries contributed largely to the commercial development. But they simply prepared society for a revival of commercial activity by keeping up communication and furnishing inns for travelers.

11. Italian Commerce and Industry in the Fourteenth Century[10]

BY THOMAS B. MACAULAY

Liberty, partially indeed and transciently, revisited Italy; and with liberty came commerce and empire, science and taste, all the comforts and all the ornaments of life. The Crusades, from which the inhabitants of other countries gained nothing but relics and wounds, brought to the rising commonwealths of the Adriatic and Tyrrhene seas a large increase of wealth, dominion, and knowledge. The

[10]Adapted from the essay on *Machiavelli* (1827).

moral and geographical position of these commonwealths enabled them to profit alike by the barbarism of the West and the civilization of the East. Italian ships covered every sea. Italian factories rose on every shore. The tables of Italian moneychangers were set in every city. Manufactures flourished. Banks were established. The operations of the commercial machine were facilitated by many useful and beautiful inventions. We doubt whether any country of Europe, our own excepted, has at the present time reached so high a point of wealth and civilization as some parts of Italy had attained four hundred years ago. Historians rarely descend to those details from which alone the real state of a community can be collected. Hence posterity is too often deceived by the vague hyperboles of poets and rhetoricians, who mistake the splendour of a court for the happiness of a people. Fortunately John Villani has given us an ample and precise account of the state of Florence in the early part of the fourteenth century. The revenue of the Republic amounted to three hundred thousand florins; a sum which, allowing for the depreciation of the precious metals, was at least equivalent to six hundred thousand pounds sterling; a larger sum than England and Ireland, two centuries ago, yielded annually to Elizabeth. The manufacture of wool alone employed two hundred factories and thirty thousand workmen. The cloth annually produced sold, at an average, for twelve hundred thousand florins; a sum fully equal in exchangeable value to two millions and a half of our money. Four hundred thousand florins were annually coined. Eighty banks conducted the commercial operations, not of Florence only but of all Europe. The transactions of these establishments were sometimes of a magnitude which may surprise even the contemporaries of the Barings and the Rothchilds. Two houses advanced to Edward the Third of England upwards of three hundred thousand marks, at a time when the mark contained more silver than fifty shillings of the present day, and when the value of silver was more than quadruple of what it now is. The city and its environs contained a hundred and seventy thousand inhabitants.

D. MEDIÆVAL INDUSTRIAL POLICY

12. The Spirit of Solidarity in the Mediæval Town

Town and gild ordinances furnish abundant evidence of a spirit of social solidarity animating industrial legislation which is quite foreign to the modern point of view. There was a determined attempt on the part of the authorities to prevent "regrating," or buying to sell again at a higher price; "forestalling," or outwitting fellow dealers

by purchasing goods before they came into open market; and "engrossing," or the modern cornering-the-market. Gild documents are replete with statutes the purpose of which was to secure to the consumer the use of the best raw materials, the exercise of care and skill on the part of the workman, and full measure. While instances could be multiplied, the custom in the city of Chester that "a man or woman making false measure and being arrested, compounded for it with four shillings;" the custom in the same town of punishing with the ducking stool the maker of bad ale; and the statute of the spurriers of London to the effect that "no one of the trade of spurriers shall work longer than from the beginning of the day until curfew rings out of the church of St. Sepulcher," are typical examples of legislation of this kind. But perhaps, to the modern mind, the strangest of all the customs was the levying of export duties and the frequent prohibition of the export of certain articles, usually food-stuffs. The purpose of such taxes and prohibitions is implicit in the frequently appended clause, "because of the scarcity of the commodity in the city of late." A careful examination of the evidence shows that it was framed in the interest of producers-consumers by men who were not sufficiently used to the intermediate money term to separate the two parts of the economic process.

An explanation of the attitude implicit in this legislation is simple when the conditions of life in the mediæval town are kept clearly in mind. These laws were enacted, not because men of the Middle Ages were less acquisitive than modern men, or were more imbued with the spirit of Christianity, but because of the peculiar exigencies of Mediæval town life. The Mediæval town, settled by alien merchants, villeins from near-by manors, emancipated or runaway serfs, and fortune seekers from far and near, began its career with no sharply drawn class lines and few local traditions. It was the product of a new industrial movement which threatened to rob the First and Second Estates of the social and economic preeminence which they had enjoyed for centuries. The nature and aspirations of town life were incompatible with the customs of feudalism. There was an inevitable opposition between the larger industrial entity which bourgoisie life made necessary and the smaller unit in which alone the spirit of feudalism could survive. There developed consequently a hostility between the old and the new, and it became necessary to fight for existence. From such a common struggle a spirit of solidarity necessarily emerged.

An influence even stronger was the economic dependence of the town. It will not be denied, I think, that where the conditions of existence are severe, a strong feeling of common interests grows

up within the group. Such conditions existed in the mediæval town. It must be admitted that the transition from the Roman system of slavery to the mediæval system of serfdom represented a great economic gain. The serf, freed from gang work and thrown on his own resources, with rents fixed by immutable custom, and with the assurance of a right to enjoy all the surplus produced above the stipulated rent, held a position that gave promise of efficiency. He was in position to produce an agricultural surplus, a necessary antecedent to the development of the town. But the real gain in the transition from slavery to serfdom was potential and not actual. It is very doubtful whether the serf of the twelfth century was producing as much as the slave in the palmy days of the Empire. To make this potential surplus actual, the wants of the agricultural laborer had to be developed. Despite the principle of the indefinite expansibility of wants, this process was slow, depending upon the chance visits of travelling merchants, the fairs, and the slow development of the towns. Consequently the precariousness of its food supply made the threat of starvation a very real one to the town. The result was necessarily legislation which sought to conserve the food supply.

It is true that differentiation of occupations characterized the town almost from the very beginning. Even in the days of the early gild merchant individual interests were not completely identical with communal interests. But the technical methods of the gildsman were simple and direct, necessitating the use of very little capital, and causing industry to be carried on on a small scale. The relationship of the master workman to the members of his establishment was personal. Generally speaking goods were made to order. The artisan knew the eccentricities of his customers, and was anxious to humor them. The industrial process was a short-time one, goods were generally consumed in the neighborhood in which they were produced, and if any flaw in material or defect in workmanship was discovered, the producer would likely hear of it. Under such conditions the social ownership of productive goods only gradually gave way to the ever-enlarging area of individual property-rights. Hence the two processes of production and consumption were practically identified in the mind of the townsman.

This breadth of view-point in domestic relations can best be understood by its contrast with the townsman's conduct of foreign or out-of-town trade. The current code of business ethics allowed inferior materials and poor workmanship to be used in the production of articles for the foreign market. The interests

of the foreigner were not protected by the customary, or just, price; and if, by hook or crook, the townsman could put off short weight on the foreigner, so much the better. In short, here the element of personality was minimized; and, for that reason, production, the social means, became to the artisan an individual end. In this attitude toward foreign trade is to be found the beginning of the entrepreneur view-point. As the industrial entity increased in size and complexity, as the time of the productive process was lengthened, and as business relations became more impersonal, it is quite natural that the gildsman's attitude towards foreigners should come to be his attitude towards all customers.

Yet the influence of mediæval thought in promoting the spirit of solidarity is not to be wholly overlooked. The town was born in an atmosphere saturated with the spirit of Mediæval Catholicism. Brotherhood and equality had long been preached by the Church. Vertical, or inter-class equality was never realized, either in Chivalry or in the Church. But many mediæval institutions presented at least a fair semblance of horizontal, or intra-class equality. It was under the influence of ecclesiastical precedents that the towns established their new organizations. A study of the characteristic features of the gilds shows how great was the number of things for which they were indebted to religious institutions, and how few were the real innovations springing out of the newly created urban life. Influenced by such habits of thought and freed from the obstacles opposed by an already stratified society, the merchant gild legislated with the end in view of placing social interests above class or individual interests. Intellectual conditions and the pressure of economic and political necessity prevented the formal sacrifice of social weal to individual acquisition.

13. Articles of the Spurriers of London[11]

In the first place,—that no one of the trade of Spurriers shall work longer than from the beginning of day until curfew rung out at the Church of St. Sepulchre, without Newgate; by reason that no man can work so neatly by night as by day. And many persons of the said trade, who compass how to practice deception in their work, desire to work by night rather than by day; and then they introduce false iron, and iron that has been cracked, for tin; and also they put gilt on false copper, and cracked. And further,—many of the said trade are wandering about all day, without working at all at their trade; and then when they have become drunk

[11]Adapted from University of Pennsylvania, *op. cit.*, 21–22 (1345).

and frantic, they take to their work, to the annoyance of the sick, and all their neighborhood, as well by reason of the broils that arise between them and the strange folks who are dwelling among them. And then they blow up their fires so vigorously, that their forges begin all at once to blaze to the great peril of themselves and of all the neighborhood around. And then, too, all the neighbors are much in dread of the sparks, which so vigorously issue forth in all directions from the mouths of the chimneys in their forges. By reason thereof it seems unto them that working by night should be put an end to, in order such false work and such perils to avoid: and, therefore, the Mayor and the Aldermen do will, by the assent of the good folks of the said trade, and for the common profit, that from henceforth such time for working, and such false work made in the trade, shall be forbidden.

14. Mediæval Tricks of Trade[12]

BY BERTHOLD VON REGENSBURG

The first are ye that work in clothing, silks, or wool or fur, shoes or gloves or girdles. Men can in nowise dispense with you; men must needs have clothing; therefore should ye so serve them as to do your work truly; not to steal half the cloth, or to use other guile, mixing hair with your wool or stretching it out longer, whereby a man thinketh to have gotten good cloth, yet thou hath stretched it to be longer than it should be, and maketh a good cloth into worthless stuff. Nowadays no man can find a good hat for thy falsehood; the rain will pour down through the brim into his bosom. Even such deceit is there in shoes, in furs, in curriers' work; one man sells an old skin for a new, and how manifold are thy deceits no man knoweth so well as thou and thy master the devil.

The second folk are such as work with iron tools. They should all be true and trustworthy in their office, whether they work by the day or the piece. When they labor by the day, they should not stand all the more idle that they may multiply the days at their work. If thou laborest by the piece, then thou shouldest not hasten too soon therefrom, that thou mayest be rid of the work as quickly as possible, and that the house may fall down in a year or two. Thou shouldest work at it truly, even as it were thy own. Thou smith, thou wilt shoe a steed with a shoe that is naught; and the beast will go perchance scarce a mile thereon when it is already broken, and

[12]Adapted from a thirteenth-century sermon, translated in Coulton, *A Mediaeval Garner,* 348–354.

the horse may go lame, or a man be taken prisoner, or lose his life. Thou art a devil and an apostate.

The third are such as are busied with trade; we cannot do without them. They bring from one kingdom to another what is good cheap there, and whatever is good cheap beyond the sea they bring to this town, and whatever is good cheap here they carry over the sea. Thou, trader, shouldst trust God that He will find thee a livelihood with true winnings. Yet now thou swearest so loudly how good thy wares are, and what profit thou givest the buyer thereby; more than ten or thirty times takest thou the names of the saints in vain—God and all His saints, for wares scarce worth five shillings! That which is worth five shillings thou sellest, maybe, sixpence higher than if thou hadst not been a blasphemer of our Lord, for thou swearest loud and boldly: "I have been already offered far more for these wares": and that is a lie. And if thou wilt buy anything from simple folk, thou turnest all thy mind to see how thou mayst get it from him without money, and weavest many lies before his face; and thou biddest thy partner go to the fair also, and goest then a while away and sayest to thy partner what thou wilt give the man for his wares, and biddest him come and offer less. Then the simple country fellow is affrightened, and will gladly see thee come back. "Of a truth," thou sayest, "by all the saints, no man will give thee so much for this as I!" Yet another would have given more.

The fourth are such as sell meat and drink, which no man can disregard. Wherefore it is all the more needful that they shouldst be true and honest therein; for other deceit dealeth only with earthly goods, but this deceit with a man's body. If thou offerst measly or rotten flesh that thou hast kept so long until it be corrupt, then art thou guilty perchance of one man's life, perchance of ten. Or if thou offerest flesh that was unwholesome before the slaughter, or unripe of age, which thou knowest well and yet givest it for sale, so that folk eat it into their clean souls which are so dear a treasure to Almighty God, then dost thou corrupt the noble treasure which God hast buried in every man; thou art guilty of the blood of these folk. The same say I of him who selleth fish. So are certain innkeepers and cooks in the town, who keep their sodden flesh too long, whereof a guest eateth and falleth sick thereafter for his life long. So also do certain others betray folk with corrupt wine or mouldy beer, unsodden mead, or give false measure, or mix water with the wine. Certain others, again, bake rotten corn to bread, whereby a man may lightly eat his own death; and they salt their bread which is most unwholesome.

The fifth folk are such as till the earth for wine or corn. They should live truly towards their lords and towards their fellows, and among each other; not plough one over the other's landmark, nor trespass nor reap beyond the mark, nor feed their cattle to another's harm, nor betray their fellows to the lord. Ye lords, ye deal sometimes so ill with your poor folk, and can never tax them too high; ye would fain ever tax them higher and higher. Thou boor, thou bringest to the town a load of wood that is all full of crooked billets beneath; so sellest thou air for wood! And the hay thou layest so cunningly on the wagon that no man can profit thereby; thou art a right false deceiver.

The sixth folk are all that deal with medicine, and these must take great head against untruth. He who is no good master of that art, let him in nowise undertake it, or folks' blood will be upon his head. Take heed, thou doctor, and keep thyself from this as thou lovest the kingdom of heaven. We have murderers enough without thee to slay honest folk.

So are some men deceivers and liars like the craftsmen. The shoemaker sayeth, "See, there are two most excellent soles," and he hath burned them before the fire. And the baker floods his dough with yeast, so that thou hath bought mere air for bread. And the huxter pours sometimes beer or water into his oil; and the butcher will sell calves' flesh at times, saying: "It is three weeks old," and it is scarce a week old.

15. The Control of Industry in the Gild Period[13]

BY L. F. SALZMANN

Broadly speaking, the control of industry may be said to be either external, by parliamentary or municipal legislation, or internal, by means of craft gilds. These two sections again admit of subdivision according as their objects are the protection of the consumer, the employer, or the workman. Nor can we entirely ignore legislation for purpose of revenue—subsidies and customs.

If a large number of parliamentary enactments were protective of the producer, as for instance the prohibition in 1463 of the import of a vast variety of goods from silk ribbands to dripping-pans, and from razors to tennis balls, including such incompatibles as playing-cards and sacring bells, yet still more were they protective of the consumer. For one thing, of course, a single act prohibiting certain imports might protect a dozen classes of manufacturers, while

[13]Adapted from *English Industries in the Middle Ages,* 200–237 (1913).

the denunciation of one particular species of fraud would probably lead ingenious swindlers to invent a succession of others, each requiring a separate act for its suppression. Sentimental admirers of the past are likely to imagine that the mediæval workman loved a piece of good work for its own sake and never scamped a job. Nothing could be farther from the truth. The mediæval craftsman was not called a man of craft for nothing! He had no more conscience than a plumber, and his knowledge of ways that are dark and tricks that are vain was extensive and peculiar. The subtle craft of the London bakers, who, while making up their customer's dough, stole a large portion of the dough under their customers' eyes by means of a little trap-door in the kneading board and a boy sitting under the counter, was exceptional only in its ingenuity. Cloth was stretched and strained to the utmost and cunningly folded to hide defects, or a length of bad cloth would be joined on to a length of superior quality; inferior leather was faked up to look like the best, and sold at night to the unwary; pots and kettles were made of bad metal which melted when put on the fire, and everything that could be weighed or measured was sold by false measure.

From the consumer's point of view the regulation of prices was perhaps the most important problem. The price of raw material was too much dependent upon supply and demand to admit of much regulation. The local authorities, civic and manorial, took constant measures to prevent the artificial enhancement of what we may call raw foodstuffs, corn, fish, and meat, the "regrator and forestaller," that is to say, the middleman who intercepted supplies before they reached the market and forced prices up for his own sole benefit, being universally regarded as a miscreant. The economists of that period had not grasped the fact that the cleverness shown in buying an article cheap and selling the same thing without any further expenditure of labor, dear, if done on a sufficiently large scale, justifies the bestowal of the honor of knighthood or a peerage. In the case of manufactured foodstuffs, such as bread and ale, the price was automatically fixed by the price of the raw material, and in general prices of manufactures were regulated by the cost of the materials. The principle that the craftsman should be content with a reasonable profit and not turn the casual needs of his neighbors to his own benefit is constantly brought out in local regulations.

The question of prices, which were thus so largely composed of a varying sum for material, and a fixed sum for workmanship, is very intimately connected with the question of wages. The mediæval

economist seems to have accepted the Ruskinian theory that all men engaged in a particular branch of trade should be paid equal wages. There were, of course, grades in each profession, as master or foreman, workman, and assistant or common laborer, but within each grade the rate of payment was fixed. Wages were at all times paid on the two systems of piece-work and time, and the hours were, as a rule, long. For the building trade at Beverley in the fifteenth century work began in summer at 4:00 A. M. and continued until 7:00 P. M.; at 6:00 A. M. there was a quarter of an hour's interval for refreshment, at 8:00, half an hour for breakfast, at 11:00 an hour and a half to dine and sleep, and at 3:00 half an hour for further refreshment. During the winter months the builders worked from dawn till dusk, with half an hour for breakfast at 9:00 o'clock, an hour for dinner at noon, and a quarter of an hour's interval at 3:00. Wages, of course, when paid by the day, varied in winter and summer. But, against the long hours, we have to set off the comparative frequency of holidays.

For the protection of the consumer a very thorough system of search or inspection was established. The search of weights and measures, provisions, cloth, and tanned leather usually belonged to the mayor or equivalent borough officer, or in country districts to the manorial lord, but usually with other manufactures, and very often in the case of cloth and leather, the mayor deputed the duty of search to members of the craft gilds elected and sworn for that purpose. They could inspect the wares either in the workshops or when they were exposed for sale, and seize any badly made articles. The forfeited goods were either burnt or given to the poor, and the offending craftsman fined, set in the pillory, or, if an old offender, banished from the town. To facilitate tracing the responsibility for bad work, weavers, fullers, hatters, metal-workers, tile-makers, and other craftsmen, including bakers, were ordered to put their private trademarks on their wares. This process must have been much simplified by the custom so prevalent of segregating or localizing the trades, so that the goldsmiths dwelt in one quarter, the shoemakers in another, etc.

As the trades were kept each to its own district, so was the craftsman restricted to his own trade. By a law issued in 1364 artificers were obliged to keep to one "mystery" or craft, an exception being made in favor of women acting as brewers, bakers, carders, spinners, and workers of wool and linen and silk—the versatility of woman, the "eternal amateur," being thus recognized some five centuries and a half before Mr. Chesterton rediscovered it. Later

statutes forbade shoemakers, tanners, and curriers to infringe on each other's province. The general tendency was to keep trades, and more especially the allied trades, separate, in order presumably to avoid the growth of "combines" and monopolies. For this reason fishmongers and fishermen were forbidden to enter into partnership in London, because the dealers, knowing the needs of the city, would be able to manipulate supplies and keep up prices.

How far the desire to restrict output was at the bottom of regulations forbidding the employment of more than a strictly limited number of apprentices and journeymen, and how far such prohibitions were inspired by fear of the monopolization of labor by capitalists it is difficult to say. Probably the dread of the capitalist was the chief incentive for such regulations, which are very numerous. The same principle of fair play between employers led to the ordaining of heavy penalties for taking away another man's servant, or employing any journeyman who had not fulfilled his engagement with his previous master, and to the strict prohibition of paying more than the fixed maximum wages. This last provision was sometimes got over by the master's wife giving his servants extra gratuities and gifts. So also the use of the cheap labor of women was as a rule regarded with disfavor. The fullers of Lincoln were forbidden to work with any woman who was not the wife or maid of a master, and the "bracers" or makers of braces, of London, in 1355, laid down "that no one shall be so daring as to set any woman to work in his trade, other than his wedded wife or his daughter." Of child labor we hear very little, one of the few notices being an order on the children's behalf made, suitably enough, by Richard Whittington, in 1398, that whereas some "hurlers" (makers of fur caps) send their apprentices and journeymen and children of tender age down to the Thames and other exposed places, amid horrible tempests, frosts, and snows, to scour caps, to the very great scandal of this city, this practice is to cease at once.

Too much attention must not be given to the quarrelsome side of the gilds, for they were essentially friendly societies for mutual assistance. One of the rules of the London leather-dressers was that if a member should have more work than he could complete and the work was in danger of being lost, the other members should help him. A still more essential feature of the gilds was their grant of assistance to members who had fallen ill or become impoverished through no fault of their own. Nor did their benevolence end with the poor craftsman's death, for they made an allowance to his widow and celebrated masses for the repose of his soul.

E. MEDIÆVAL ECONOMIC THEORY

16. The Gospel of Stewardship[14]

BY SAINT THOMAS AQUINAS

Exterior goods have the character of things useful to an end. Hence human goodness in the matter of these goods must consist in the observance of a certain measure as is done by a man seeking to have exterior riches in so far as they are necessary to his life according to his rank and condition. And, therefore, sin consists in exceeding this measure, and trying to acquire or retain riches beyond the due limit.

Covetousness may involve immoderation in two ways: in one way immediately as to the receiving or keeping of them, when one acquires or keeps beyond the due amount; and in this respect it is directly a sin against one's neighbor, because in exterior riches one cannot have superabundance without another being in want, since temporal goods cannot be simultaneously possessed by many. The other way is in interior affections, in immoderate love, or desire of, or delight in, riches. In this way it is a sin of man against himself by the disordering of his affection. It is also a sin against God by the despising of eternal good for temporal.

The Philosopher says: "It belongs to the magnanimous man to want nothing or hardly anything." This, however, must be understood in human measure, for it is beyond the condition of man to have no wants at all. For every man needs first of all the divine assistance, and secondly also human assistance, for man is naturally a social animal, not being self-sufficient for the purposes of life.

Magnanimity regards two objects, honor as its matter, and some good deed in view as its end. Goods of fortune co-operate to both these objects. For honor is paid to the virtuous, not by the wise only, but by the multitude. Now the multitude make most account of the external goods of fortune; consequently greatest honor is paid by them to those who have these things. In like manner goods of fortune serve as instruments to acts of virtue, because by riches there is opportunity for action. Clearly the goods of fortune contribute to magnanimity. Virtue is said to be self-sufficient, because it can exist even without these external goods; nevertheless, it needs these external goods to have more of a free hand in its working.

[14]Adapted from *Summa Theologica,* Quaest, CXVIII; LXXIX, art. I, vi et viii (1265–1274).

Solicitude for temporal things is unlawful if we seek temporal things as our final goal. Temporal things are subject to man that he may use them for his necessity, not that he may set up his rest in them, or be idly solicitous about them.

17. The Usurer's Fate[15]

BY CAESARIUS OF HEISTERBACH

In the days when Oliver was Master of Schools at Cologne (as I was told by Brother Bernhard, who was then Oliver's colleague and fellow-preacher), there was a certain peasant named Gottschalk who busied himself with usury. As he slept one night beside his wife, he heard as it were the sound of a mill-wheel turning in his own mill; whereupon he cried for his servant, saying, "Who hath let the mill-wheel loose? Go and see who is there." The servant went and came back, for he was too sore afraid to go farther. "Who is there?" cried the master. "Such horror fell upon me at the mill-door," answered the fellow, "that I must perforce turn back." "Well!" cried he, "even though it be the devil, I will go and see." So, naked as he was, but for a cloak which he threw over his shoulders, he opened the mill-door and looked in, when a sight of horror met his eyes. There stood two coal-black horses, and by their side an ill-favored man as black as they, who cried, "Quick! mount the horse, for he is brought for thee." When, pale and trembling, he hesitated to obey, the devil cried again, "Why tarriest thou? Cast aside thy cloak and come." No longer able to resist, he cast off his cloak, entered the mill, and mounted the horse—or rather the devil. The Fiend himself mounted another; and, side by side, they swept in breathless haste from one place of torture to another, wherein the wretched man saw his father and mother in miserable torments. There also he saw a certain knight lately died seated on a mad cow with his face toward her tail and his back to her horns; the beast rushed to and fro, goring his back every moment so that the blood gushed out. To him the usurer said, "Why suffer you this pain?" "This cow," replied the knight, "I tore mercilessly from a certain widow; wherefore, I must now endure this merciless punishment." Moreover, there he was shown a burning fiery chair, wherein could be no rest, but torment and interminable pain to him who sat there. And it was said, "Now shalt thou return to thy own house, and thou shalt have thy reward in this chair." The Fiend brought him back and laid him in the mill, half-dead. Here he was found by his wife

[15]Adapted from *Dialogus Miraculorum*, I, 70. Translation in Coulton, *A Mediaeval Garner*, 212–215 (About 1250).

and family, who brought him to bed, and asked where he had been. "I have been to hell," he answered, "where I saw such and such tortures." The priest was called, who warned him to repent of his sins, saying that none should despair of God's mercy. He answered, "I cannot confess. My seat is made ready; after the third day I must come thither, and there must I receive the reward of my deeds." And thus unrepentant, unconfessed, and unanointed he died on the third day and found his grave in hell. It is scarce three years since these things came to pass.

18. Usury Versus the Boycott[16]

If any of those who are setting out are bound by oath to pay interest, we command that their creditors shall be compelled by the same means to release them from their oaths and to desist from the exaction of interest. But if any creditor shall compel them to pay interest, we order that he shall be forced, by a similar punishment, to pay it back.

We command, however, that the Jews shall be compelled by the secular power to remit interest. Until they remit it, all faithful Christians shall, under penalty of excommunication, refrain from every species of intercourse with them. For those, moreover, who are unable at present to pay their debts to the Jews, the secular princes shall provide by a useful delay, so that after they begin their journey they shall suffer no inconvenience from interest. The Jews shall be compelled, after deducting the necessary expenses, to count the income which they receive in the meanwhile from the mortgaged property toward the payment of the principal; since a favor of this kind, which defers the payment and does not cancel the obligation, does not seem to cause great loss.

19. The Characteristics of Mercantilist Doctrine[17]

BY JOHN KELLS INGRAM

The Mercantile doctrine, stated in its most extreme form, makes wealth and money identical, and regards it therefore as the great object of the community so to conduct its dealings with other nations as to attract to itself the largest possible share of the precious metals. Each country must seek to export the utmost possible quantity of its own manufactures, and to import as little as possible of

[16]Adapted from *Mansi, Conciliorum collectio,* XXXII, 1057. This is an enumeration of the privileges granted the Crusaders by Innocent III (1215).

[17]Adapted from *A History of Political Economy,* 37–40 (1887).

those of other countries, receiving the difference of the two values in gold and silver. This difference is called the balance of trade, and the balance is favorable when more money is received than is paid. Governments must resort to all available expedients for the purpose of securing such a balance.

But this statement of the doctrine does not represent correctly the views of all belonging to the Mercantilist school. Many of that school were much too clear-sighted to entertain the belief that wealth consists exclusively in gold and silver. The mercantilists may be best described by a set of theoretical tendencies, commonly found in combination, though severally prevailing in different degrees in different minds. These may be enumerated as follows:—(1) Towards over-estimating the importance of possessing a large amount of the precious metals; (2) towards an undue exaltation (a) of foreign trade over domestic, and (b) of the industry which works up materials over the industry which provides them; (3) towards attaching too high a value to a dense population as an element of national strength; and, (4) towards invoking the action of the state in furthering artificially the attainment of the several ends thus proposed.

If we consider the contemporary position of Western Europe, we shall have no difficulty in understanding how these tendencies would arise. The discoveries in the New World had led to a large development of the European currencies. A new "money economy" had arisen. The mercantilists saw that money was in universal demand, and that it put in the hands of its possessor the power of acquiring all other commodities. The period, again, was marked by the formation of great states, with powerful Governments at their head. These Governments required men and money for the maintenance of permanent armies and for court expenses. Taxation grew with the demands of the monarchies. Statesmen saw that for their own political ends industry must flourish. But manufactures, because they made possible a denser population and a larger total volume of exports than agriculture, became the object of special Governmental favor and patronage. The growth of manufactures reacted on commerce, to which a new and mighty arena had been opened by the establishment of colonies. The aim of statesmen was to make the colonial trade a new source of public revenue. Working for their own power, the nations entered into a competitive struggle in the economic field.

A national economic interest came to exist, of which the Government made itself the representative head. States became a sort of artificial hothouses for the rearing of urban industries.

Production was subjcted to systematic regulation with the object of securing the goodness and the cheapness of the exported articles, and so maintaining the place of the nation in foreign markets. The industrial control was exercised, in part directly by the state, but largely through privileged corporations. High duties on imports were resorted to in the interests of national production. Commercial treaties aimed at excluding the competition of other nations in foreign markets and the exclusion of foreign goods, other than raw materials, from the domestic market. The colonies were prohibited from trading with European nations other than the parent country. The mercantile doctrine was essentially the theoretical counterpart of the practical activities of the times. Governments were led to it by the force of outward circumstance.

We must pronounce the universal enthusiasm of this period to have been essentially just, as leading the nations into the main avenues of general social development. The organization of agriculture could not at that time make any marked progress, for it was still in the hands of the feudal class. The industry of the towns had to precede that of the country. And it is plain that in the life of the manufacturing proletariat a systematic discipline could first be applied, to be afterwards extended to the rural populations. Technical skill must have been promoted by the encouragement of industry and commerce. New forms of national production were fostered by attracting workingmen from other countries, and by lightening the burden of taxation on struggling industries. Communication and transport were rapidly improved with a view to facilitate traffic. And, not the least important, the social dignity of the industrial professions was enhanced.

II

THE INDUSTRIAL REVOLUTION

Our historical sketch requires for its completion a study of that later aspect of social development which we so often and so strangely call the "Industrial Revolution." This movement has done far more than shower upon us a series of "great inventions" or bless mankind with a new technique. Appearing gradually and working indirectly, as well as directly, it has affected our whole world of thought, of action, and of institutions; it has modified our economics, our politics, our ethics, and even our religion; it has changed in nature, number, and form our baffling problems; it has written itself large in our culture. In view of its many-sidedness and the gradual way in which it has effected and is still effecting its changes, it seems amiss either to call it "industrial" or to refer to it as a "revolution."

We look in vain for its beginnings. We know that early mediaevalism could have given us nothing which, even erroneously, could be called an "industrial revolution." Before it could appear the mediaeval scheme of values had to be transformed. Desires for earthly things had to be freed from their unethical taint; a wholesome respect for the world had to be built up; man had to acquire greater reverence for his own powers and functions; people had to learn to conform to the things of this world if they would transform it. This change in the attitude toward life and its problems was intimately associated with several other lines of development. There appeared a new interest in nature as nature, a new philosophy, a new mathematics, and a new physics. These laid the foundation of the new technique. Many discoveries of new lands were made, adding tremendous resources calling for utilization. There was brought to Europe gold alike serviceable for the furtherance of the new money economy and the more rapid accumulation of capital. Colonial ventures led to an extension of the market and a great increase in the size of the industrial unit. This necessitated a reorganization of the "factory" and a more extensive use of the principle of the division of labor. The last produced a minute specialization which both served to create an incentive for the invention of new machines and furnished an opportunity for their use. Together with accumulated capital and the necessary scientific knowledge this new organization led to the new technique. Even this is not the whole story; for in England the movement was hastened by conditions peculiar to the country. The indented coastline, by cheapening transportation and enlarging the market, must have been a factor of prominence. It has been suggested, too, that an institution, seemingly as extraneous as primogeniture, played its part by forcing into mercantile pursuits those whose veins contained the adventurous blood of nobility.

The course of the "revolution" has been as comprehensive as its antecedents. The changes in technique are most clearly appreciated. Even here the tendency toward a "machine-process" embracing a large part of the industrial system is generally overlooked, as is also the seemingly antagonistic fact that up to the present the conquest of the older system by the machine has been partial and incomplete. On the economic side, the increasing importance of capital, the rise of the "factory system," the disappearance of "domestic industry," the trend toward large-scale production, the separation of the laborer from the "tools of his trade," and increasing class differentiation based upon differences in industrial functions are most clearly seen. These aspects of the movement raise the questions of artificially controlling the tendencies inherent in the development of the machine-system, the deter-

mination of the size of the industrial entity, the social control of large aggregates of wealth such as railroads and capitalistic monopolies, the elimination of economic insecurity which alike attends labor and capital, the equities of the distribution of wealth, and the urban enigmas of overcrowding, housing, sanitation, vice, and poverty. They reveal, too, just over the horizon the more ominous questions of property, inheritance, and the reconstruction of industrial society.

The questions reveal but a single aspect of the influences of the Industrial Revolution. Political, ethical, religious, and social questions have all been involved in the general transformation of life and values. In many cases they are inseparably connected with economic problems. For instance, when the machine took over the work of the home, the latter became a new institution. One writer insists that the home, and woman as well for all that, has not yet adapted herself to the new society. We all complain that the "machine-process" has entered our colleges, and that college instruction is being "standardized" and college graduates "tagged." We all, at least occasionally, complain of the inability of law and religion alike to adjust themselves to Modern Industrialism. And our friends in ethics tell us that the newer industrial life is effecting startling changes in our standards of social and individual ethics.

And are we sure that we have reached the end of the "revolution"? Most likely we are in a second stage of the process where problems are vastly different from those met in the first stage which occupied the larger part of the nineteenth century. Perhaps there will be a third stage unlike the second. Clearly the end of the new technology is not as yet. The technique first introduced has not as yet produced its full complement of social results. Quite as important, the new technique is being rapidly extended over a wider and wider area, constantly affecting the fortunes of people less and less adapted to it. Its extention preserves a frontier where machine-culture is constantly pushing back a civilization founded on a less complex technique. The reaction upon our system is fraught with grave consequences.

A. THE ANTECEDENTS OF THE REVOLUTION

20. The Characteristics of the English People[1]

BY ALFRED MARSHALL

England's geographical position caused her to be peopled by the strongest members of the strongest races of northern Europe; a process of natural selection brought to her shores those members of each successive migratory wave who were most daring and self-reliant. Her climate is better adapted to sustain energy than any other in the northern hemisphere. She is divided by no high hills, and no part of her territory is more than twenty miles from navigable water. The strength and wise policy of the early kings prevented artificial barriers from being raised by local magnates.

The custom of primogeniture inclined the younger sons of noble families to seek their own fortunes; and having no special caste privileges they mixed readily with the common people. The fusion of different ranks tended to make politics business-like; while it

[1]Adapted from *Principles of Economics,* 4th ed., 32–35 (1895).

warmed the veins of business adventure with the generous daring and romantic aspirations of noble blood. Resolute in resistance to tyranny, they have submitted to authority justified by reason. They have known how to combine order and freedom. They alone have united a thorough reverence of the past with a power of living for the future.

The English yeoman archer was the forerunner of the English artisan. He had the same pride in the superiority of his food and his physique over those of his continental rivals; he had the same indomitable perseverance in acquiring perfect control over the use of his hands, the same independence and the same power of self-control and of rising to emergencies.

But the industrial facilities of the Englishmen remained latent for a long time. They had not inherited much acquaintance with nor much care for the comforts and luxuries of civilization. In manufactures they lagged behind the rest of Europe. For a long time there was no sign on the surface of future commerce. They had not originally, and they have not now, the special liking for dealing and bargaining, nor for the more abstract side of financial business which is found among Jews, Italians, and Greeks. Trade with them has always taken the form of action rather than manouvering and speculative combination. Even now the subtlest speculation on the London Stock Exchange is done by those races which have inherited the same aptitude for trading that the English have for action. The latter characteristic has impelled the English into production, into discovery, invention, business organization, and into navigation. Their commercial activities are a result of peculiar conditions and a development of these latter activities.

21. English Industry on the Eve of the Revolution[2]

BY ARNOLD TOYNBEE

I must ask you to transport yourselves in imagination to England as it was a century and a quarter ago. Then the farms were small and the method of cultivation primitive. The old system of common cultivation was still to be seen at work in a large number of parishes in the Midland counties. Rotation of crops was only imperfectly understood; the practice of growing winter roots and artificial grasses was only slowly spreading. "As for the sheep," said an old Norfolk shepherd, speaking of a still more recent period,

[2]Adapted from "Industry and Democracy," in *Lectures on the Industrial Revolution,* 179–188 (1881).

"they hadn't such food provided for them as they have now. In winter there was little to eat except what God Almighty sent for them, and when the snow was deep on the ground they ate the ling or died off." The cotton industry, which now supports more than half a million of persons, was then oppressed by Parliament as a possible rival to older industries, and was too insignificant to be mentioned more than once, and then incidentally, by Adam Smith. The iron industry, with which the material greatness of England has during the present century been so conspicuously associated, was gradually dying out. Much of the ore was still smelted by charcoal in small furnaces blown by leather bellows worked by oxen. Not cotton and iron, but wool was considered, in those days, the great pillar of national prosperity. There were few people who doubted but that the ruin of England would follow the decay of this cherished industry. It was only philosophers like Bishop Berkeley, who, going very deep into matters, ventured to ask whether other countries had not flourished without the woolen trade.

To show you the external conditions of industrial life in the middle of the last century, I cannot, I think, do better than give a short description of the way in which wool was manufactured in the neighbourhood of Leeds. The business was in the hands of small master-manufacturers who lived, not in the town, but in homesteads in the fields, and rented little pasture-farms. Every master worked with his own hands, and nearly all the processes through which the wool was put—the spinning, the weaving, and the dyeing—were carried on in his own house. Few owned more than three or four looms, or employed more than eight or ten people—men, women, and children. This method of carrying on the trade was called the domestic system. "What I mean," said a witness, "by the domestic system is the little clothiers living in villages or detached places, with all their comforts, carrying on business with their own capital; every one must have some capital, more or less, to carry on his trade, and they are in some degree little merchants as well as manufacturers, in Yorkshire." A spinning-wheel was to be found in every cottage and farm-house in the kingdom, a loom in every village.

The mention of this fact brings me to another point in the economic history of this period—the extremely narrow circle in which trade moved. In many districts the farmers and labourers used few things which were not the work of their own hands, or which had not been manufactured a few miles from their homes. The poet Wordsworth's account of the farmers' families in Westmoreland, who grew on their own land the corn with which they were fed,

spun in their own homes the wool with which they were clothed, and supplied the rest of their wants by the sale of yarn in the neighboring market town, was not so inapplicable to other parts of England as we might at first imagine. If the inland trade was thus circumscribed, we shall not be surprised to find that our foreign trade was, compared with its present dimensions, on a tiny scale.

Though there were periods of keen distress, there was no such thing as long-continued wide-spread depression of trade. Over-production was impossible when the producer lived next door to the consumer, and knew his wants as well as the country shoemaker of today knows the number of pairs of boots that are wanted in his village. And when foreign trade was so insignificant, wars and rumours of wars could exercise but little influence over the general circle of commerce.

The expense of carriage was enormous—it cost forty shillings to send a ton of coal from Manchester to Liverpool—and it was as slow as it was expensive. Adam Smith tells us that it took a broad-wheeled wagon, drawn by eight horses, and attended by two men, three weeks to carry four tons of goods from London to Edinburgh. The roads—even the main roads—were often impassable. A famous traveller describes how the high road between Preston and Wigan had, even in summer, ruts four feet deep, floating with mud; and in many parts of the country the principal means of communication were tracks used by pack-horses. Was it not natural that, shut up within such narrow confines, unstimulated by wide markets and varied intercourse, manufactures advanced but slowly and inventions were rare? Man's life moved on from generation to generation in a quiet course which would seem to us a dull, unvarying routine.

The majority of employers were small masters—manufacturers like those already described, who, in ideas and habits of life, were little removed from the workmen, out of whose ranks they had risen, and to whose ranks they might return once more. There were, of course, even then capitalist employers, but on a small scale; nor was their attitude to their workmen very different from that of the little masters in the same trade. Few of the small masters of whom I have spoken did not work with their own hands; and it was the common thing for them to teach their apprentices the trade. Both the apprentices, for whose moral education he was responsible, and the journeymen were lodged and boarded in the master's house. Between men living in such close and continuous relations the bonds were naturally very intimate. Nor were these bonds loosened when the journeyman married and lived in his own house. The master

knew all his affairs, his particular wants, his peculiarities, his resources, the number of his children, as well as he did before. If the weaver was sick, the master lent him money; if trade was slack he kept him on at a loss. "Masters and men," said an employer, "were in general so joined together in sentiment, and, if I may be permitted to use the term, in love to each other, that they did not wish to be separated if they could help it." And the workmen corroborated the assertion. "It seldom happens," said a weaver, "that the small clothiers change their men except in case of sickness and death." It was not uncommon for a workman to be employed by the same master for forty years; and the migration of labourers in search of work was small compared with what goes on in the present day. A workman would live and die on the spot where he was born, and the same family would remain for generations working for the same employers in the same village. Under such conditions the master busies himself with the welfare of the workman, and the education of his children; the workman eagerly promotes the interests of the master, and watches over the fortunes of the house. They are not two families but one.

There is yet one other characteristic of industry in those days which remains for us to scrutinize. This is the network of restrictions and regulations in which it was entangled and which exercised an important influence over both its inner and its outer life. Most conspicuous were the combination laws,—laws which made it illegal for labourers to combine to raise wages, or to strike. "We have no Acts of Parliament," says Adam Smith, "against combining to lower the price of work, but many against combining to raise it." And in another passage he describes a strike as generally ending, "in nothing but the punishment or ruin of the ringleaders." And not only was combination to raise wages illegal, but emigration from parish to parish in search of work was rendered almost impossible by the law. These laws, which cruelly hindered the workman in his efforts to secure a livelihood, were bad; but there were other laws directly affecting the position of the workman as a citizen which were worse. I select one example. The law of Master and Servant made breach of contract on the part of an employer a civil offence, on the part of the labourer a crime.

Except as a member of a mob, the labourer had not a shred of political influence. The power of making laws was concentrated in the hands of the landowners, the great merchant princes, and a small knot of capitalist-manufacturers who wielded that power in the interests of their class, rather than for the good of the people. Nor is the famous assertion of the great economist that, whenever

Parliament attempted to regulate differences between masters and their workmen, its counsellors were always the masters, unsupported by facts. It receives lively illustration from the pen of a pamphleteer of the period, who remarks with an air of great naturalness and simplicity that "the gentlemen and magistrates ought to aid and encourage the clothier in the reduction of the price of labour, as far as is consistent, with the laws of humanity, and necessary for the preservation of foreign trade." The position of the workman was a transitional one. He halted half-way between the position of the serf and the position of the citizen; he was treated with kindness by those who injured him; he was protected, oppressed, dependent.

22. Geographical Discovery and the Revolution[3]

BY WILLIAM CUNNINGHAM

In the latter part of the eighteenth century there was a burst of inventive genius in Great Britain. Many improvements were rapidly introduced, and the useful arts, as practised from time immemorial, were revolutionised in a few years. This was no mere accident, but was at least partly due to the fact that the conditions of economic life had become more favourable to such change than they had ever been before. The age of geographical discovery had paved the way for the age of invention; England had succeeded in surpassing each of the rivals who during a century and a half had striven with her for the commercial supremacy of the world; her predominance afforded the English inventors of the eighteenth century unexampled opportunities for turning their talents to account.

Holland was no longer the carrier of the world; her manufactures had declined in importance. In France over-centralization destroyed the initiative of the people and injured all branches of industry and agriculture. English shipping had increased, and distant markets for national wares had been opened. The East Indies were willing to accept unlimited supplies of cotton cloth; and the continent of Europe and the colonies of America were largely dependent on Great Britain for woolen goods; manufacturing could be conducted on a larger and larger scale without immediate risk of glutting the widespread demand by overproduction. So long as commerce had been organised as an intercivic affair, or on the old regulated lines of exclusive privileges in limited markets, there

[3]Adapted from *An Essay on Western Civilization in Its Economic Aspects,* II, 225–228 (1900).

could not have been any such stimulus to the invention and introduction of machinery as the world-wide markets naturally afforded.

But more than this: the mines of the New World and the successful commerce with the East had given England the material means for the formation of large amounts of capital, which were now available for employment. There had been much admirable ingenuity among seventeenth century engineers and mechanics, but they were hampered by want of capital; their projects could not be carried out. In the eighteenth century London had become the monetary centre of the world, and it was no longer impossible to venture on the long and costly experiments that were often needed to render some mechanical improvement a financial success. We are not detracting from the genius of Watt or Arkwright if we say that they seized and made the most of opportunities, such as no other men had ever had before. Had they lived under the conditions which were in vogue in preceding centuries, both as to demand for goods and the supply of capital, these great inventors could only have enjoyed the meagre distinction which future generations accord to men who were in advance of their times.

The great geographical discoveries were the result of long-continued and conscious effort, directed to a clearly understood aim; great expeditions had to be organised to sail on unknown seas and establish friendly relations with distant potentates. Explorers were forced to wait on courtly patronage and royal initiative; but mechanical invention has run a different course. The coincidence of the two phenomena, a world-wide demand and a large supply of capital, enabled humble and unknown men to push on step by step; political prestige and elaborate organisation were not so essential as in schemes for colonization; mechanical skill and personal ingenuity had at last obtained their chance. The new industrial era, which the age of invention brought in its train, has offered a free field and given the greatest rewards to individual enterprise. It is commonly said that the physical advantage of England in the possession of enormous supplies of coal and iron side by side, have enabled her to out-distance her rivals, not only in commerce but in industry; still, the proximity and quantity of coal and iron do not in themselves account for her success completely; in the case of such inventions as Arkwright's they do not account for it at all. The favorable conditions which English manufacturers enjoyed, in the eighteenth century, and the reliance on individual enterprise which had been traditional in Great Britain, were not unimportant factors in rendering this island the workshop of the world.

B. THE NATURE AND SCOPE OF THE REVOLUTION

23. Technology and the Revolution[4]

The Industrial Revolution was no sudden transformation of the structure of industry and the organization of social life. It is an unfortunate emphasis upon the "great inventions" and their immediate consequences which has caused us to lose sight of the broad scope and the varied content of the movement. This emphasis has too frequently conveyed the impression that the sudden appearance upon the scene of industrial action of several very wonderful machines, born of the inventive genius of the great men of old, wrought a great change, substituting an entirely new and more efficient system for the archaic one which had done service before. This view commits the double error of regarding the movement as industrial and as a revolution.

It was not industrial; for its antecedents cannot, any more than its consequences, be pent up in any narrow causal formula to which the term industrial can be properly applied. An attempt to find its beginning forces one into excursions into fields as complex as human life itself. Certainly the common-sense scheme of social values, the estimates placed by peoples upon their institutions, their aspirations, and their instruments cannot be excluded from the catalogue of antecedents. The change in such a scheme was one of the most potent of the factors leading to this great movement. Clearly the mediæval scheme of values would have inhibited the invention of the steam-engine. It would not even have permitted the consideration of the problem the partial answer to which the steam-engine became. For such a society the high values were in things of the "other world." To it nature was not a thing worth conquering; if it had been, man was impotent to effect the conquest. Improvement in industrial technique demanded placing a higher value upon life in this world, upon the material means toward its fulness, and upon man's dependence upon nature's bounty and laws. It demanded, too, that the individual develop confidence in the soundness of his worldly desires and in his capacity to do things worth while. When an adequate account of this great movement is written, one of its most important chapters will trace the development of this new scheme of values.

But, passing over the larger social aspects of the subject, even industrially the movement was hardly a revolution. This is evidenced by a study of the transition from the craft to the machine régime. Under the former, population had been adjusted to the

[4]Adapted from an unpublished article entitled "The Place of Technique in the Industrial Revolution."

available supply of natural resources; and the existing technique had adapted itself to both. In fact so harmoniously did the three fit together that the craft technique was just adequate to supply the customary wants of a slowly increasing population by making use of the whole of the available natural resources. In view of its adequacy, this technique, almost perfect, was in little danger of being replaced.

However, the gradual revelation of the natural resources of the New World, or the "economic discovery of America," created an acute technical problem, whose solution promised alike individual fortune and social prosperity. Its significance lies in the fact that it disturbed the happy harmony between population, technique, and natural resources. Resources were all of a sudden tremendously increased. Being potential wealth, they promised fortune to him who could turn them into finished commodities. The craft technique, however, was incapable of handling so large an order. At best, it could but leave large quantities of resources untouched. Yet the almost infinite expansibility of human wants, particularly in view of the inability of population mechanically to assume a given size, demanded that the largest possible quantity of raw material be converted into usable goods. Consequently the problem of finding a new and adequate technique became one of increasing social importance during the seventeenth and eighteenth centuries. In terms of an instinctive and semi-conscious struggle to solve this problem much of the intellectual history of these centuries becomes intelligible.

Properly speaking, the problem included two closely related problems, that of technique proper, and that of industrial organization. The first of these presented grave difficulties. The craft technique could, of course, suggest, and parts of it could even be taken over. But, for all that, its development was complete; its primary basis was individual skill; and certainly in view of its present high development, it was impossible to establish a more adequate technique by a further development of human dexterity. Furthermore, the development of skill pointed to delicacy, quality, refinement. Since these were not what was wanted, the new technique had to start from new beginnings. Its demands were cruder than those made upon the older system. Its problem was to find a means of handling immense quantities of raw material in the rough, and of turning out large quantities of crude products. It involved, too, handling these masses rapidly, which necessitated finding a source of power other than human labor. The first requirement imposed the necessity of the exact handling of materials; the second involved devising a scheme for throwing the burden of the work upon nature. The first imposed

an understanding of the laws of quantity; this made necessary the development of mathematics, and rendered it a basic science of the new technique. The second rendered imperative a study of the phenomena of expansion, heat, motion, etc.; this necessitated the further development of the science of physics, or natural philosophy, and prescribed it as antecedent to technique. How diligently and successfully these preliminary studies were made, the histories of mathematics and of physics in the seventeenth and eighteenth centuries abundantly attest. It is significant that chemistry and biology, which were not needed for the new technique which found expression in the Industrial Revolution, did not receive their significant development until later. How closely developments in physics and mathematics were related to the general social movement is evidenced by the expression of rationalism and empiricism in the philosophy of these centuries, culminating in the naturalistic philosophy of the later eighteenth century. It is of note, too, that many of the philosophers of the period were deeply interested in mathematics, several making notable contributions to the subject. These sciences had to do the basic work, before significant technical development could occur. Technology had to bide its time.

For a time the development of industrial organization distanced that of pure technique. Gradually England built up a foreign trade for its finished commodities. This was greatly increased by the over-seas demand. In proper economic order the larger market led to an increase in the size of the industrial establishment, and the latter, to a thorough reorganization. The object of this was to subdivide tasks, and thus to reap the advantage of increased individual efficiency due to a more minute specialization of labor. The expected advantage of a decrease in costs was realized. Further it has an ulterior, and perhaps more permanent, effect in supplying the last condition necessary to the appearance of the new technique. Specialization is nothing else than the breaking up of a production operation into its elements: it is a differentiation of productive acts, the isolation of a unit of the process. It tends to make the work of the laborer the monotonous repetition of a single routine act. The task, consequently, assumes just the form in which it can better be done by some mechanical contrivance, that repeats the single necessary motion, than by a laborer. It was in just this way that factory reorganization constantly threw off new isolated tasks and visualized the need of the machine. How important this is as a necessary antecedent of the machine is indicated by the use of the term Industrial Revolution as synonymous with factory reorganization by a recent writer, who contends that the machine was not the cause, but the result, of the Industrial Revolution.

The very introduction of the machine led to a tendency toward the extension of its use. Four aspects of this tendency are noteworthy. First, the introduction of machines in industrial establishments is followed by a lack of harmony between the machine-work and the auxiliary craft-work in the establishment. Secondly, there is a like incompatibility between the machine-operations carried on in an industrial establishment and the craft-operations which are antecedent or subsequent to it in the industrial process. Friction in such cases leads to an extension of the machine system to complementary activities within or without the factory. Thirdly, complete harmony, as Marx has pointed out, requires the application of the machine method to the making of machines. And, fourthly, the application of machinery to transportation demands, for anything more than its most meager use, a thoroughgoing localization of industry and a great enlargement of the market for particular commodities.

In these subsequent developments industrial organization and the machine technique have evidenced a constant interdependence. An enlargement of the market increases the size of the factory; this leads to a further specialization in industrial acts; in this certain parts of the larger process are isolated and are taken over by machines; this leads to a decrease in costs and to a lower price for the goods; and this leads to an enlargement of the market and to a repetition of the cycle. One point as well as another marks the beginning of this endless round; logically there is no absolute cause and no absolute effect. But we must remember that as the cycle tends again and again to run its course, its convolutions become narrower; for even such a magical sequence is itself subject to the law of diminishing returns. Just as, if we attempt to find the beginning of the Industrial Revolution, we get lost in a complicated past; so, if we look for its end, we lose ourselves in industrial change whose completion is not as yet.

Great as the change in technique has been, the conquest of the machine has by no means been complete. To call the present system the machine system is to overlook the great fields which the machine has failed to subdue. In practically all agriculture the larger part of production is still under the control of the craft; some agrarian work the machine has hardly touched. Professional and clerical work, as well as a large part of commercial work, knows as yet little of the machine. In country towns and small cities the crafts still survive. Even in the larger industrial centres the small establishment and handwork loom much larger in total than at first would appear. And even in the largest and best organized industrial establishments large oases, as it were, of the older system are left. It is perhaps

true that the influence of the machine reaches far beyond the physical fact, and that it exercises an overlordship over the habits and lives of all. But this overlordship is partial and incomplete. The lives and habits of the great majority are still more immediately affected by the older craft which directly affects their work than by the influence of the newer and more brilliant technique.

24. The Comprehensiveness of the Revolution[5]

BY J. H. CLAPHAM

No region of Europe remained altogether unaffected by that long series of economic developments which has changed the face and profoundly affected the structure of modern society. It was no mere industrial revolution; its story is not a list of inventions or a biography of inventors. Nor is it simply the story of capital and capitalistic production. Side by side with mechanical invention, the rising power of capital, the extension of economic freedom, and the expansion of international trade went an astonishing growth in population and a partial introduction of the methods and results of exact science into economic affairs. The distinctive mark of economic history during this period is to be found, not in any change or group of changes, but rather in the coincidence of many types of change and the rapidity with which some of these types developed. Everywhere there was movement, but the causes of the movement were infinitely varied.

The whole eighteenth century had been an age of steady industrial development and of great commercial activity. Intercourse among the nations was more frequent and more free than ever before. The more or less scientific and comparative study of natural resources was now no new thing. Imitation of superior foreign methods in agriculture, commerce, and the arts, was keenly pursued. There was an accelerating accumulation of capital. Banking, the necessary prerequisite to investment and the organ of highly developed commerce, had made conspicuous progress.

Trade was cutting its own channels, wherever Government would permit. In the more advanced countries it had refused, long before the middle of the eighteenth century, to confine itself to fairs and markets, after the mediæval fashion. It had become an everyday matter, had ceased to be a thing of times and seasons.

A widespread care for the improvement of internal means of

[5]Adapted from chap. xxiii, "Economic Change," in *A Cambridge Modern History*, X, 727–739 (1907).

communication, combined with an ever-growing international trade, had quickened the pulse of economic life. In Holland, Italy, and even bankrupt France, the work went on. In Great Britain the task of improving river navigation, reconstructing roads, and cutting navigable canals was in full swing in the seventies. Because of excess of tolls elsewhere, Britain alone was able to make full use of the work of the road and canal builders.

England exemplified the close connection which must always exist between improvement in the means of transport, the concentration of population, and a progressive agriculture. Where the cultivator works only to supply his own needs he rarely escapes from the crushing compulsion of traditional methods. The demand of the town and roads are essential if there is to be rapid movement on the land. In England the growth of London, to which most of the new roads led, furnished a main driving force. Decline in common field husbandry was associated in Great Britain with free and rational methods and with spontaneous agricultural progress.

The familiar series of revolutionary inventions towards the close of the century fell upon prepared soil. In all the western nations there existed some mining and manufacturing on a large scale, and many trades in which the hand-workers were to a considerable extent dependent on the capitalist employer. Large and small industrial enterprises were everywhere encouraged by the governments. The progress in organization along industrial lines was due mainly to the fact that industrial establishments worked for export and so were brought under the influence of a commercial system already organized on capitalistic lines.

A right instinct has selected the invention of spinning machinery and the perfection of the steam-engine as the chief industrial events of the later eighteenth century. The first led to the reorganization of what had long been the greatest group of industries; the second furnished motive power for both new and old mechanical processes. But they were only the most important links in a long chain of improvements which freer industry, increasing skill and capital, expanding commerce, and a more scientific handling of technical problems, introduced into various branches of manufacture. In almost all branches of industry England evolved and applied fresh methods of production. Of great significance for the general progress of manufacturing was the increased production of raw iron. Of even greater significance was the establishment, during the first forty years of the nineteenth century, of mechanical engineering as the organized capitalistic industry, upon which all other industries were beginning to depend.

The cotton trade occupies an unique position in the general movement. It was young; in the eighteenth century its various parts had been but imperfectly organized; and, consequently, it was adaptable. The wool-working trades on the contrary were old, highly organized, and in certain districts most conservative. It is in no way surprising therefore that machinery and steam were more slowly introduced in them than in the cotton trade. Wool and flax and cotton spinning on the wheel died as the machine gained ground. Cotton, an exotic, had never been spun extensively outside the actual manufacturing districts. As a result the work passed much more quickly than that of spinning wool into the mills.

In fact few trades remained untouched by the general advance in technique and the movement towards a more capitalistic organization. To the steady improvement of manufacturing processes were added the new and expensive motor power, better and more complex machines, and the new knowledge of the natural sciences. Trades ancillary to those of spinning and weaving, such as calico-printing, bleaching, and dyeing, were refashioned. Machinery and chemistry began to influence the ancient and conservative crafts of tanning and leather-working. In pottery-making, in printing, in brewing, in glass-making, and in a score of other industries, methods were revised and the scale of operations for the individual firm extended. The power-driven machine took hold even of simple crafts like carpentry and shoemaking. In coal-mining the combined effects of the new power, the new needs, and the new knowledge were conspicuous. It was in the mines that steam had first been used for pumping. Yet all these things were but small beginnings compared with the developments of the later nineteenth century.

The system of transportation consequent upon the changes mentioned was not developed until well in the nineteenth century. Turnpikes tended to become more numerous and to be better laid and better graded. Work on harbors and estuaries and docks was undertaken concurrently with that on roads. Canals were constructed. The Napoleonic wars witnessed the beginnings, the peace the utilization of steam transport both on land and sea. It was in the year of Waterloo that a steamer first made the passage from London to Glasgow. Yet progress was slow. In fact the second quarter of the nineteenth century was not really an age of steam navigation. On land a more real and rapid revolution occurred; but it remained incomplete in the early forties. The railway found the reform of the old means of transport still unfinished. The electric telegraph, which has joined with the railway to create the modern market, had hardly passed the experimental stage; and the short-sighted critics

who could treat the railway as a mere nuisance or a novel luxury had but recently been silenced.

25. The Significance of the Revolution[6]

BY GRANT ROBERTSON

The New England must be sought in Lancashire and the West Riding, in the coal-pits of Durham, Northumberland, and South Wales, in the Black Country and the Potteries. The industrial town partly creates, is partly created by, the industrial area. The division of labor, the concentration of population, followed inevitably the localization and distribution of the raw material of manufactures. Men and women, more and more penned into the towns, are dependent for their earnings, not on the sun and the rain, the soil and the seasons of the home land, but on the brains of engineers, on the commercial capacity of capitalists, on imports from East and West, on the bowels of the earth, and on specialized skill and mechanical powers. Three things they must have or perish—the raw material of their trade, food, and expanding markets. Every year the application of machinery and motor power stimulated enterprise on a large scale, and increased the profits of scientific organization. Every new invention facilitated the rate at which the total output could be increased, while it demanded a corresponding organization for distribution, exchange, and consumption. The object of the manufacturer was to create and control markets and make their consumptive capacity as elastic as his capacity to produce. England as "a workshop for the world" involved a world ready to absorb the products of the workshop, and the crux of the problem did not lie in the certainties of production, but in the potentialities of exchange and consumption. Hence the new economic data necessitated the rewriting of old and the writing of new chapters to the theory of Political Economy, and the school of Ricardo is born out of the school of Adam Smith. The centre of political gravity slowly shifts with a shifting of the centre of economic gravity. The political and economic interests of a vast class of industrial workers and consumers, divorced from the land and linked with the capitalist and manufacturing entrepreneur, became more and more opposed to the interests of the landowner.

By 1785 in our agricultural economy the results had cut sharply into the quick. Farming on a large scale, the increasing application

[6]Adapted from *England under the Hanoverians,* 328–346 (1912).

of agricultural science, the consolidation of estates, and the enclosures, had combined to dislocate, and in some cases extinguish altogether, the yeoman and the cottager of the old order. By 1800 there was a marked diminution of the number of the small landowners and a steady disappearance of the village community as a coöperative organization for the cultivation of the soil. Of this revolution the evolution of the "free-hand," the landless laborer working for wages, was a direct consequence. A new landed interest was in process of creation. Its chief function was to provide more and more food; its chief object to reap the profits of its combined duty and interest. Goldsmith's *Deserted Village* written in 1770, and the *Corn Law* of 1773, conveniently mark a point of departure. The legislature, controlled by the landed classes, tried to make England self-sufficient. As population increased the margin of cultivation was forced down and prices went up. The need for increased supplies could, under the law of diminishing returns, be met only by increased cost of production. The rise in rent kept pace with the rise in prices to the landlord's gain; but the problem of pauperism, rooted in low wages and high prices, yearly became more formidable. The result was the formulation of new fundamental problems of government. Can agricultural science, aided by Legislation, procure the necessary supply of food from home resources? In the national economy which is the more important, agriculture or manufactures? Which is socially the more beneficial, cheap food or a lower margin of cultivation and higher rents? Is the landed interest or the industrial interest to have the deciding voice in politics?

The new industrial interest was coming to rest upon a new social economy. Since 1750 there had been a vast increase of capital. The political expansion of the empire, the new markets across the seas, and the development of colonial possessions precede the Industrial Revolution. Because of the freedom of England from invasion, the country was spared the periodic devastation of fixed capital, and the hindrances to accumulation that invasion brought with it. The character of our citizens and the conditions of the epoch combined to focus the energies of the race on the creation of wealth, and the openings for profitable investments in agriculture, industry, and commerce put a premium on saving. We can broadly measure the increase in wealth by the fact that the financing of the agricultural and industrial revolution, and of the colossal eighteenth century wars, was accomplished from British resources alone.

The "capitalist" in the strict economic sense was no new apparition. Nor was industry working on a capitalistic basis new. What

is new is, first, the capitalist entrepreneur, primarily a manufacturer, not a moneyed man engaged in commerce; secondly, the growth of a class of capitalist entrepreneurs; thirdly, the gradual domination of industry by that class; and, fourthly, the type of industrial organization that he creates and the scale on which he applies it. To Adam Smith a "manufacturer" was still a workman, working with his own hands in his own home or workshop, with his own tools. The manufacturer of the Industrial Revolution is the modern master who provides capital, owns his mill or factory, together with the machinery and tools provided for his "hands," pays these "hands" wages, and creates and maintains a market.

With the new capitalist is born the new industrial proletariat, that ever-increasing army of men and women who are wage-earners and are a new stratum in the economic world. The Revolution that dissolved the link between the peasant and the soil forged the bond that chained the wage-earner to the town. Swollen by the dislocated peasantry, by their own power to reproduce themselves in obedience to the increasing demand of capital and science for human hands and bodies, they have come to stay and to create another England. The slow establishment of a reserve of labor that can be called into the working line when trade requires it, and be thrust back when it is slack, the problems of unemployment and the unemployable, are not the least of the formidable enigmas forced on humanity by the wage-earner and the Industrial Revolution.

Any picture grouping the features in clear-cut symmetry would be false to the facts. In different trades, in different areas, under varying conditions and degrees of pressure, an amazing diversity, not uniformity, is the prevailing note of the economic phenomena. The old order did not perish at a blow. The new was not introduced complete by a few remarkable inventions and a group of organizers. The peasant was not universally divorced from industry nor the industrial population from the soil. But in the stream of tendencies and the competition between the old and the new every year saw one more stone in the ancient fabric dislodged, one more stone in the new fabric cemented.

The face of the country was being altered. The new roads and the canals are made not for the traveler on pleasure bent, but to bring the places where men produce into communication with the centres of exchange. Mark, too, how the roads and canals more and more lead to and from the urban workshops, to and from the sea. From the sea the bulk of the raw material must come—to the sea

much of the finished product will go. Commerce, like war, is an affair of positions to start with. England was quick to take advantage of its strategic commercial position. The trend of population is at first to the strategic and focal centres of a distributing, exchanging, bartering, and carrying trade. Then comes the revelation of internal resources. Geological formation underpins geographical configuration. From 1770 onwards a student with a geological map and some knowledge of the economic data of the new trades might predict *a priori* where the new industrial centres must be. In the whole island so bitten and fretted is the coast line that it is impossible to place a pin-point anywhere on the map which is more than sixty miles from salt water. What this means for imports and exports needs no exposition. By 1801 imports and exports are an absolute necessity of bare existence.

The country town is either transformed by industry or it slips into subordination to the new towns. These are not places which men and women inhabit through choice, but to live in, to produce, to exchange, to breed in, and to die. They are stamped with the feudalism of industry, a feudalism seated among factory chimneys, warehouses, the roar and glare of blast furnaces, the undying throb of machinery drowning the tramp of the wearied feet of men and women born tired and condemned to toil. Over the new towns are hung the banners and scutcheon of the industrial lords. Within there is the dull monotony of brick and stone, sweat and grime and smoke, unceasing noise, the stress of competition whose cessation means ruin.

The new urban race living under new conditions is a new people. Its pleasures, hopes, fears, needs will be different, alike from those of the old cities, the old mercantilism, the old agriculture. It will create a new type of character, frame new values, hammer out from the dirt and roar of the teeming hives ideals of life and government bound to clash fiercely with the ideals inherited from a different past. It will ask for new creeds; it will demand a new economics; it will need and make a new literature. The rearrangement of the elements of society, and the regrading of classes, will bury deeper and deeper each day the legal framework of the old order. The problems of national physique, motherhood, childhood, education, pauperism, citizenship, happiness are old; but restated in the terms of a growing industrial democracy they become new, and with every decade more complex, urgent, and formidable.

C. LABOR AND THE REVOLUTION

26. Labor's Willing Slaves[7]

BY EDWIN ARNOLD

Look at common modern existence as we see it, and note to what rich elaboration and large degrees of comfort it has come. I invite you briefly to contemplate the material side of an artisan's existence in your own Birmingham. Let alone the greatness of being an Englishman, and the supreme safety and liberty of his daily life, what king of old records ever fared so royally? What magician of fairy tales ever owned so many slaves to bring him treasures and pleasures at a wish? Observe his dinner-board. Without being luxurious, the whole globe has played him serving-man to spread it. Russia gave the hemp, or India, or South Carolina the cotton, for that cloth which his wife lays upon it. The Eastern islands placed there those condiments and spices which were once the secret relishes of the wealthy. Australian downs sent him frozen mutton or canned beef, the prairies of America meal for his biscuit and pudding; and if he will eat fruit, the orchards of Tasmania and the palm woods of the West Indies proffer delicious gifts, while the orange groves of Florida and of the Hesperides cheapen for his use those "golden apples" which dragons used to guard. His coffee comes from where the jeweled humming-birds hang in the bowers of Brazil, or purple butterflies flutter amid the Javan mangroves. Great clipper ships, racing by night and day under clouds of canvas, convey to him his tea from China or Assam, or from the green Singhalese hills. The sugar which sweetens it was crushed from canes that waved by the Nile or the Orinoco; and the plating of the spoon with which he stirs it was dug for him from Mexican or Nevadan mines. The currants in his dumpling are a tribute from classic Greece, and his tinned salmon or kippered herring are taken from the seas and rivers of Canada or Norway. He may partake, if he will, of rice that ripened under the hot skies of Patna or Rangoon; of cocoa, that "food of the gods," plucked under the burning blue of the Equator. For his rasher of bacon, the hog-express runs daily with 10,000 grunting victims into Chicago; Dutch or Brittany hens have laid him his eggs, and Danish cows grazed the daisies of Elsinore to produce his cheese and butter. If he drinks beer, it is odds that Belgium and Bavaria have contributed to it the barley and the hops; and when he has finished eating, it will be the

[7]Adapted from an address delivered at the Birmingham and Midland Institute, October 10, 1893.

Mississippi flats or the gardens of the Antilles that fill for him his pipe with the comforting tobacco. He has fared, I say, at home as no Heliogabalus or Lucullus ever fared; and then, for a trifle, his daily newspaper puts at his command information from the whole globe, the freshness and fulness of which make the news-bearers of Augustus Caesar, thronging hourly into Rome, ridiculous. At work, machinery of wonderful invention redeems his toil from servitude, and elevates it to an art. Is he fond of reading? There are free libraries open to him, full of intellectual and imaginative wealth. Is he artistic? Galleries rich with beautiful paintings and statues are prepared for him. Has he children? They can be educated for next to nothing. Would he communicate with absent friends? His messengers pass in the Queen's livery, bearing his letters everywhere by sea and land; or in hour of urgency the Ariel of electricity will flash for him a message to the ends of the Kingdom at the price of a quart of small-beer. Steam shall carry him wherever he would go for a halfpenny a mile; and when he is ill the charitable institutions he has too often forgotten in health render him such succor as sick goddesses never got from Aesculapius, nor Ulysses at the white hands of Queen Helen. Does he encounter accident? For him as for all others the benignant science of our time, with the hypodermic syringe or a waft of chloroform, has abolished agony; while for dignity of citizenship, he may help, when election time comes, by his vote to sustain or to shake down the noblest empire ever built by genius or valor. Let fancy fill up the imperfect picture with those thousand helps and adornments that civilization has brought even to lowly lives; and does it not seem stupid and ungrateful to say, as some go about saying, that such an existence, even if it were transitory, is not for itself distinctly worth possessing?

27. The Wage-Slaves[8]

BY ALLAN L. BENSON

Poverty did not go out when steam and electricity came in. On the contrary, the fear of want became intensified. Now, nobody who has not capital can live unless he can get a job. In the days that preceded the steam engine, nobody had to look for a job. The shoemaker could make shoes for his neighbors. The weaver could weave cloth. Each could work at his trade without anybody's permission, because the tools of his trade were few and inexpensive. Now, neither of them can work at his trade, because the tools of

[8]Adapted from *The Truth about Socialism,* 6–7. Copyright by the author (1911).

his trade have become numerous and expensive. The tools of the shoemaker's trade are in the great factory that covers, perhaps, a dozen acres. The tools of the weaver's trade are in another enormous factory. Neither the shoemaker nor the weaver can ever hope to own the tools of his trade. Nor, with the little hand-tools of the past centuries, can either of them compete with the modern factories. The shoe trust, with steam, electricity, and machinery, can make a pair of shoes at a price that no shoemaker, working by hand, could touch.

Thus the hand-workers have been driven to knock at the doors of the factories that rich men own and ask for work. If the rich men can see a profit in letting the poor men work, the poor men are permitted to work. If the rich men cannot see a profit in letting the poor men work, then the poor men may not work. Though there be the greatest need for shoes, if those in need have no money, the rich men lock up their factories and wave the workers away. The workers may starve, if they like. Their wives and children may starve. The workers may become tramps, criminals or maniacs; their wives and their children may be driven into the street—but the rich men who closed their factories because they could see no profit in keeping them open,—these rich men take no part of the responsibility. They talk about "the laws of trade," go to their clubs and have a little smoke, and, perhaps, the next week give a few dollars to "worthy charity" and forget all about the workers.

D. THE NEW INDUSTRIALISM

28. The Function of Capital[9]

BY J. DORSEY FORREST

Before the Revolution capital had little significance except in agriculture and commerce. Such simple tools and machines as were used in manufacturing were the property of the workmen themselves, and consequently had no such social importance as modern capital has. Except for the introduction of the great mechanical devices and the application of steam-power, capital could never have assumed the tremendous importance which it has attained. The function of capital, then, is the same in kind as it was before the beginning of machine industry, but the quantitative difference is so

[9]Adapted from *The Development of Western Civilization,* 331–338. Copyright by the University of Chicago (1906).

great as to constitute "capitalism" a virtually new phenomenon.

The immensity of modern industrial undertakings necessitates the employment of the surplus wealth of the entire community. No small company of men can furnish the requisite amount of capital. It is demanded in such gigantic quantities that it cannot be supplied by the managers of industry, nor even by those more conspicuous capitalists who manipulate stocks and shape policies. These very wealthy men may own a large share of the whole; well-to-do people who take no active part in business management also own a large share; while the better class of artisans likewise supply hundreds of millions of capital, especially of that floating portion which is supplied through the banks for the payment of their own wages and the purchase of materials. Modern capitalistic production is essentially co-operative.

The wide ownership of the means of production is an indication of the social character of production. Practically all of the available wealth of society is now directed to productive uses. If a completely socialistic scheme could be carried out, it would be necessary, unless society should confiscate all private property now held, to obtain the capital from those who are now furnishing it. If public bonds should be given to the present capitalists, it is difficult to see how the new system would differ materially from the present one. In short, there has been developed, along with this great industrial system, a banking and credit system through which all wealth not reserved for consumption may be made available for production. Before the Industrial Revolution, banking was of very minor importance. At present the enormous banking interests of all civilized countries and the equally important credit arrangements by which capital may easily be turned into the industries which need it, make possible the employment of the resources of the whole society in the production of the goods desired by society.

The individual is compelled to serve society in caring for his own interests by turning back into the productive processes much of the profit derived from invested capital or managerial ability. The incomes of the wealthy are largely turned back to productive purposes, making possible the enlargement of plants, the employment of more laborers, the increase of production, the cheapening of prices. In many directions the consuming capacity of the individual, rich or poor, is limited. Extravagant consumption is possible to a certain extent, and is, perhaps, a growing evil. But the total waste of the rich is probably a small item which, if saved and distributed throughout the whole society, would be of little consequence. The chief use which the wealthy capitalist can make of the income of his

capital is to add it to his capital and employ it in the production of still larger quantities of the goods of common consumption. The evil of the possession of great wealth lies rather in the unworthy social prestige and opportunity for corrupt use which its possession gives to the rich than in the greater amount of goods which the rich consume. The evils connected with capitalism should not blind us to the real efficiency of our present social system in harmonizing individual and social interests by controlling all surplus wealth in the interests of society.

29. The Factory System[10]

BY CARL BÜCHER

The factory system organizes the whole process of production; it unites various kinds of workers, by mutual relations of control and subjection, into a compact and well-disciplined body, brings them together in a special business establishment, provides them with an extensive and complex outfit of the machinery of production, and thereby immensely increases their productive powers. Just as in an army corps ready for battle, troops of varied training and accoutrement—infantry, cavalry, and artillery regiments, pioneers, engineers, ammunition columns, and commissariat,—are welded into one, so under the factory system groups of workers of varied skill and equipment are united and enabled to accomplish the most difficult tasks of production.

The secret of the factory's strength for production thus lies in the effective utilization of labor. To accomplish this, it takes a peculiar road, which at first appears circuitous. It divides as far as possible all the work necessary to a process of production into its simplest elements, separates the difficult from the easy, the mechanical from the intellectual, the skilled from the rude. It thus arrives at a system of successive functions, and is enabled to employ simultaneously and successively human powers of the most varied kind—trained and untrained men, women and children, workers with the hand and head, workers possessing technical, artistic, and commercial skill. The restriction of each individual to a small section of the process effects a mighty increase in the volume of work turned out. A hundred workmen in a factory accomplish more than a hundred independent master craftsmen, although each of the latter understands the whole process, while none of the former understands more than a small part of it.

[10]Adapted from *Industrial Evolution,* 173–176, translated by S. Morley Wickett. Copyright by Henry Holt & Co. (1900).

The machine is not the essential feature of the factory, although the subdivision of work just described has, by breaking up labor into simple movements, multiplied the application of machinery. Its application attained its present importance only when men succeeded in securing a motive power that would work unintermittently, uniformly and ubiquitously, namely, steam. An example will illustrate. In 1787 the canton of Zurich had 34,000 male and female hand-spinners producing cotton yarn. After the introduction of English spinning machines a few factories, employing one-third the former number of workers, produced an even greater quantity of thread. What is the explanation? The machine? But was not the former spinning-wheel a machine? Certainly it was, and a very ingenious one. Machine was thus ousted by machine. Or better, the entire spinning process had been decomposed into its simplest elements, and perfectly new operations had arisen for which even immature powers could in part be utilized.

In the subdivision of work originate these further peculiarities of factory production—the necessity of manufacturing on a large scale, the requirement of a large capital, and the economic dependence of the workman.

Finally, its large fixed capital assures to factory work greater steadiness in production than was possible under other systems. The manufacturer must go on producing, because he fears loss of interest and shrinkage in the value of his fixed capital, and because he can not afford to lose his trained body of workmen.

30. The Machine Process[11]

BY THORSTEIN B. VEBLEN

In its bearing on modern life and modern business, the "machine process" means something more comprehensive and less external than a mere aggregation of mechanical appliances. The civil engineer, the mechanical engineer, the mining expert, the industrial chemist,—the work of all these falls within the limits of the modern machine process. The scope of the process is larger than the machine. Many agencies which are not to be classed as mechanical appliances have been drawn into the process, and have become integral factors in it. Wherever manual dexterity, the rule of thumb, and the fortuitous conjectures of the seasons have been supplanted by a reasoned procedure on the basis of a systematic knowledge of

[11]Adapted from *The Theory of Business Enterprise*, 5–19. Copyright by Charles Scribner's Sons (1904).

the forces employed, there the mechanical industry is to be found, even in the absence of intricate mechanical contrivances. It is a question of the character of the process rather than a question of the contrivances employed. Chemistry, agricultural, and animal industries, as carried on by modern methods and in due touch with the market, are to be included in the modern complex of mechanical industry.

Not one of the processes carried on by the use of a given outfit of appliances is independent of other processes going on elsewhere. Each draws upon and presupposes the proper working of many other processes of a similar mechanical character. Each of the processes in the mechanical industries follows some and precedes other processes in an endless sequence, into which each fits and to the requirements of which each must adapt its own working. The whole concert of industrial operations is to be taken as a machine process, made up of interlocking detail processes, rather than as a multiplicity of mechanical appliances each doing its particular work in severalty. The whole makes a more or less delicately balanced complex of sub-processes.

Looked at in this way the industrial process shows two well-marked general characteristics: (a) the running maintenance of interstitial adjustments between the several sub-processes or branches of industry; and (b) an unremitting requirement of quantitative precision, accuracy in point of time and sequence, in the proper inclusion or exclusion of forces affecting the outcome, in the magnitude of the various physical characteristics, weight, size, density, etc., of the materials handled as well as the materials used. This requirement of mechanical accuracy and nice adaptation to specific uses has led to a gradual enforcement of uniformity, to a reduction to staple grades and staple character in the materials handled, and to a thorough standardizing of tools and units of measurement. Standard physical measurements are the essence of the machine régime.

Standardization has outrun urgent industrial needs and has penetrated every corner of the mechanical industries. Modern communities show an unprecedented uniformity in legally adopted weights and measures. As a matter of course tools and the various structural materials used are made of standard sizes, shapes, and gauges. The adjustment and adaptation of part to part and of process to process has passed out of the category of craftsmanlike skill into the category of mechanical standardization. Modern industry has little use for, and can make little use of, what does not conform to the standard. This latter calls for too much of craftsmanlike

skill, reflection, and individual elaboration, and is therefore not available for economic use in the processes. Irregularity is itself a fault in any item, for it brings delay, and a delay at any point means a more or less far-reaching and intolerable retardation of the comprehensive industrial process at large.

The materials and moving forces of industry are undergoing a like reduction to staple kinds, styles, grades, and gauges. The like is true of finished products. As regards the mass of civilized mankind, the idiosyncrasies of the individual consumers are required to conform to the uniform gradations imposed upon consumable goods by the comprehensive mechanical processes of industry. Because of this it follows that the demand for goods settles upon certain defined lines of production which handle certain materials of definite grade, in certain, somewhat invariable, forms and proportions. Standardization means economy at nearly all points of the process of supplying goods, and at the same time it means certainty and expedition at nearly all points in the business operations involved in meeting current wants. It also reduces the interdependence of businesses to more definite terms. Machine production also leads to a standardization of services.

By virtue of this concatenation of processes the modern industrial system at large bears the character of a comprehensive, balanced mechanical process. To an efficient working of this industrial process at large, the various constituent sub-processes must work in due coördination throughout the whole. Any degree of maladjustment in some degree hinders its working. Similarly, any detailed process or industrial plant will do its work to full advantage only when due adjustment is had between its work and the work done by the rest. The more fully a given industry has taken on the character of a mechanical process, the more urgent is the need of maintaining proper working arrangements with other industries.

31. The New Domestic System[12]

BY HERBERT J. DAVENPORT

So long as industry held its place in the home—down, that is, to the close of the handicraft era—even the palace and the castle retained their share of industrial activity. Under the supervision of the lady-mistress, the spinning maiden and the weavers were at their tasks. In truth each great dame was a lady in the strict and early sense of the word, a bread-dispenser, the mistress of an ex-

[12]Adapted from an unpublished address entitled "The Economics of Feminism" (1914).

tended and active and intricately organized domestic activity—a serious and absorbing and difficult function for which the training was arduous and in which, in the actual doing, the tests of efficiency were manifest and severe.

But now, with the complete establishment of the typically modern organization of industry, have arrived fundamental changes in the organization of the home—changes to which no adequate readjustments have as yet been devised. The flax and the hemp are no longer there for preparation. The spinning has migrated to the factory. The weaving is done by the great machines. The cutting and the making of garments have departed. The butter is churned at the creamery. More and more the bakeries are furnishing us with our bread. Gas and electricity leave no room for candle-making, or even for the filling and the care of lamps. The jam, the pickles, and the preserves we buy of the grocer. There are no more festoons of dried apples in the attic. The smoking of the ham and the bacon the packer does for us, along with the killing and the cleansing. There is no longer any leaching of ashes or boiling of soap to be done in the backyard. The steam laundry cleans and irons for us, and fades out and wears out for us, the garment which the factory has provided for ready use. The electric sweeper cleans our floors, the while that the day laborer runs it, and the dry-cleaner and the pantatorium care for our suits and our gowns. And the mother no longer teaches her children at the knee, sending them instead to the tax-paid employee of the schools.

And yet somehow, with all its occupations gone, the home still retains its exterior seeming and organization; and somehow also is so busy a place that, if it conform at all to the standard and ideal of American life, it requires an ever-larger array of house-maids and nurse-girls. Still our women folk grow worn and tired with its burdens, and if the house-maid fails, even desperate. Ill health, dyspepsia, and nervous breakdown are increasingly feminine phenomena. And along with it all, a strange accompaniment, there are fewer and fewer children to be reared as the time of the mother ought to be more. Race suicide confronts our modern societies.

It is evident that the machine industry and the cheapened processes of production have taken away from women in large part their fundamental economic functions. Things have grown too cheap to be done by the old domestic time-consuming methods. As mere matters of dollars and cents production can take place in the home only at a cost greater than the purchase price on the market. There is no place for the home woman in the industrial activities of the present society.

But something quite other has been the meaning of the new industrial processes for the life and the labor of men. The new machinery has served to provide them with tools by which vastly to enlarge the field of their effort, and to multiply their accomplishment in every single field. No matter what the deficiencies in the organization of all this new power, men have not grown idle or sluggish. They have not forfeited their functions, their jurisdiction, their aspirations, or their accomplishment.

But the history of the race does not indicate that to men exclusively belongs the duty or the privilege of labor, or that the present economic status of women is an adequate certification of progress in civilization. If women should not work, why should men? If self-respecting man must work, by what title is it now honorific to women to be idle? We have arrived at an unfortunate reversal of an earlier institution. In early society, an almost crushing amount of labor fell upon the female; under modern conditions among the fully civilized classes an unduly excessive share devolves upon the male.

The explanation of the existing situation is chiefly in modern technology. The fault is in the failure of society to work out those readjustments by which a significant share in the world's work shall be preserved for women, either within the home or outside of it. When the home is losing its economic utility, it can be available for those men alone who, being able to afford the luxury, are disposed to pay the attendant price. The increasing expensiveness of the home under modern conditions, its restriction of function to mere consumption and spending, explains the progressive swerving of men away from it, and the derivative and increasing horde of homeless and childless women outside.

Women breadwinners within the home our present American life doubtless has. But of these it holds true, as of the women of the factory, the shop, or the street, that, although belonging by sheer necessity to our American life, they yet have no place in that society which America holds as its ideal. They are our unfortunates among women, in that they have not found each her man, and attached him to her to work for her, to shelter her from all productive effort, and to support her. For it is the grievous fact that the American ideal of reputable living denies to women the rôle of economic producer and commiserates the girl who does not marry into a life of pecuniary ease; prescribes as a duty upon any self-respecting man that he neither offer nor enter marriage if his wife need be more than decoratively active; and, if he fail of this, insults her with pity and him with contempt.

It is in the cause of motherhood that we make our protest against the typical home of the American ideal. The economic dependence of women cannot be defended by the test of children; they are in inverse ratio to the room for them. The poor alone can afford to be prolific.

But not all housebound women would confess themselves to be idle. Think how absorbing and complicated the keeping of the home has become: its meticulous refinement, its ornate entertainments, its furniture and bric-a-brac for dusting, its curtains for cleaning, its rugs for beating. Busy indeed these women will be—but busy in keeping busy—absorbed in the empty competition of modern housekeeping, in the collection of work-compelling plunder, in the maintenance of exhibition rooms, and in the general annihilation of comfort. The two hours' labor that should suffice for all rational daily needs, were there only something else to do, is devoted to the preparation of mayonnaise dressings or to the concoction of snow puddings, or to other certification of useless skill. Dishwashing, instead of coming thrice a week, comes three times a day. The laundry work piles up to the proportions of a nightmare. The one child, wearied by overdressing and spoiled by fussing care, pines for the forbidden joys of dirt and bare feet. Acquiescing in all this futility, the housewife finds enough her mere labors of supervision.

Meanwhile, the man whose business it is to pay the bills is busy enough in the process—too busy, indeed, in making the income to have either the time or the taste for the spending of it. But no pity is due to this tired captain of industry, or this busy moiler in trade or finance for the burden he carries. He may, no doubt, appear to be a mere pack-animal in the service of his family—a weary though willing slave to their folly—a man solely occupied in canceling the bills they are busy in contracting. But he is aiming at his own glory. To the women, as helpless victims of the competition of display, the function of spending has been delegated. Institutionally the wife is a mere agent in the process. Not only must she, to the degree that her lord is wealthy or is aping the possessors of wealth avoid whatever remnant of useful activity is open to her, lest the suspicion of need should attach to shame him; but also, by waste and lavish outlay, must she place upon exhibit and in continuous view the wealth and achievements of her master. In this process of certifying the fact of his financial prowess by seeming to spend upon herself, she seems to afford both motive and excuse for gaining the wealth. Such glory as belongs to her part is in being the wife of such a one, and in the delusion that he is making the money for

her spending, rather than that she is spending it for his glory. The personal relation easily obscures the larger meanings of the institutional fact.

E. THE EXTENSION OF INDUSTRIALISM

32. The Competitive Victory of Western Culture[13]

BY JAMES BRYCE

What is it that the traveler sees today in India, in Africa, in the two Americas, in Australia, in the isles of the Pacific? He sees the smaller, weaker, and more backward races changing or vanishing under the impact of civilized man; their languages disappearing; their religious beliefs withering; their tribal organizations dissolving; their customs fading slowly away.

From the blending of others with immigrants streaming in, a hybrid race is growing up in which the stronger and more civilized element seems fated to predominate. In other cases people too large and powerful to lose their individuality are nevertheless beginning to be so affected by European influences as to find themselves passing into a new circle of ideas and a new set of institutions. Change is everywhere, and the process of change is so rapid that the past will soon be forgotten. It is a past the like of which can never recur.

There is one other aspect of the present age of the world that has a profound and novel meaning for the historian. The world is becoming one in an altogether new sense. More than four centuries ago the discovery of America marked the first step in the process by which the European races have now gained dominion over nearly the whole of the earth. The last great step was the partition of Africa a little more than twenty years ago.

Now, almost every part of the earth's surface, except the territories of China and Japan, is either owned or controlled by five or six European races. Eight Great Powers sway the political destinies of the globe and there are only two other countries that can be thought of as likely to enter after a while into the rank of the Great Powers. Similarly a few European tongues have overspread all the continents except Asia, and there it seems probable that those European tongues will before long be learned and used by the educated classes in such wise as to bring those classes into touch with European ideas. It is likely that by 2000 A. D. more than nine-tenths of the human race will be speaking less than twenty languages.

[13]Adapted from an address delivered before the International Congress of Historical Studies, London, May, 1913.

Already there are practically only four great religions in the world. Within a century the minor religions may be gone; and possibly only three great faiths will remain. Those things which are already strong are growing stronger; those already weak are growing weaker and are ready to vanish away. Thus, as the earth has been narrowed through the new forces science has placed at her disposal, and as the larger human groups absorb and assimilate the smaller, the movements of politics, of economics, and of thought in each of its regions become more closely interwoven with those of every other. Finance, even more than politics, has now made the world one community, and finance is more closely interwoven with politics than ever before.

World history is tending to become one history, the history no longer of many different races of mankind occasionally affecting one another's fortunes, but the history of mankind as a whole, the fortunes of each branch henceforth bound up with those of the others.

33. The Economic Conflict of Western and Primitive Culture

BY FRIEDA S. MILLER

Not once, since the Turks captured Constantinople, has European civilization been threatened by an external force. Yet, since that time, and by its own volition, it has been in constant contact with non-European peoples in their own countries. Clearly the West was not summoned by China to establish an open-door policy, and the American Indians invited no discovery.

The motive to European expansion may afford some clue to its possible effect. Religious persecution, political differences, scientific curiosity, all these have played their part; but the persistent aim has always been economic gain. The lure of the guinea alike led Spain to America, Portugal around the African cape, England to India and South Africa, and Russia across the snows to the walls of China. Pecuniary profit has been the lodestar that has led the West to the East. This motive is the open sesame to an understanding of the business of the Occident in the Orient. It means, above all, that the "new" countries, possessed of their tremendous resources, which can be unlocked only by the white man's magic key of the machine process, are to be used for the white man's profit. In its extreme form, before civilization softened the formalities, it meant for the natives slavery and transportation to distant lands. But such practices have been succeeded by a strict legal and moral code which regulates the contact of white man and native. The white man may

content himself that his ritual has proved itself in the Western world, and even flatter himself that it is the best he has to offer the native. His long personal use should enable him to guarantee its efficacy. Now what the white man wants first of all is land. This he sets about obtaining legally. He proffers the native beads or a knife in exchange for his title. When the native chief accepts, as he is likely to do, by this act which marks an exercise of his own free will and judgment, he has contracted away the lands of his tribe. No one has been injured; since the act was voluntary, the agreement extended to both parties, and compensation in full was rendered. The parties, therefore, being legally bound, must be held to the performance of their obligations under the law of contracts.

Having gained control of the soil, which may mean railroad and mining concessions in China, gold mines in South Africa, or sugar plantations in Hawaii, and having thus in his hands the possibilities of pecuniary gain, the white man's next problem is to find means of developing this potential wealth. Again the conventions of the Western world are required to prove their efficacy. Either dignity of labor or freedom of contract can be made to fit the case. On the one hand there is work in railroad building, mining, herding cattle, or what not, that requires the doing. On the other hand there are hordes of able-bodied natives who are not productively employed. Proper consideration for the dignity of toil, therefore, leaves the white man no alternative but to devise a system for securing the labor of the savage. A head tax may be levied which must be paid in money. Or a tax may be placed on the native which he can discharge in work. More easily, again using the magic wand of contract, the savage may be gotten in debt; and surely he must be held responsible for obligations voluntarily assumed. The result is the permanent establishment of the wages system.

The nature and consequences of such overlordship can be easily appreciated. Economically the native is regarded as a convenient instrument for causing success to attend the white man's venture. The noneconomic effects are also interesting and far-reaching. The coming of the white man not only makes a wage-slave of the native, but demoralizes him socially and spiritually. Tribal life is broken up when sufficient lands for hunting or communal agriculture are no longer available. With it comes the end of the power of chiefs and priests, the latter still further undermined by the assiduous efforts of Christian missionaries to convince the "heathen" of the wickedness of their leaders. Moreover, the native's observation of the white man's mode of life, with its impunity from tribal taboos and disregard of tribal sanctions, destroys their validity for him. Finally

the whole primitive system of control under which he has lived suffers shipwreck.[14]

All this but makes the native a more pliant instrument, since he cannot reconstruct a new system of values to fit the new situation. He does not understand the white man's object, or see to what place this foreign system assigns him. His mental attitude is quite external to the real nature of the system which is closing in about him. Therefore he has not the recourse against it possessed by the wage-workers of Western countries, who, whatever their weakness, still sense the drift of events that is involving them. This inferior position is made permanent and definite by the fact that most of the native races which Western civilization has encountered can not be assimilated. It is not the purpose of Europeans, even were it possible, to educate primitive races to a point where they could reap the profit of the development which their countries are undergoing.

But the results of such a policy, naturally enough, are not limited to the countries affected. To assure the pecuniary success which is the object of colonial expansion, trade is necessary. If a colony is cut off from communication with the Western world, rapid pecuniary gains cannot be made. The settlers must supply their own needs, thus establishing a self-sufficient economic system. But it is only as a part of a much larger industrial entity that the potential resources of the colony may be most advantageously utilized. A disposition of the surplus abroad gives vast differential gains. The promoters, therefore, will strive to make the colony a part of the existing industrial system. In course of time the industrial aristocracy will live under a social system and possess a civilization like that of the Western world. The natives, too, will live under such a system, but as a permanent proletariat. Thus the West with its culture is reaching out to grasp lands held by primitive peoples, and to reduce its complex and different scheme of life to its own system of values.

But the process must inevitably react upon the structure of Western society. The spirit of colonial life must influence the mother-country. Colonial pecuniary interests must find their part in Western politics. The easier life of the tropics must have its telling effect on character, and hence affect the morale of the home people. The sense of empire, too, exercises a peculiar psychological

[14]Compare the plaint of the natives in Rhodesia, as voiced by Sir Richard Martin, in his official report. "The natives practically said, 'Our country is gone and our cattle; we have nothing to live for. Our women are deserting us; the white man does as he likes with them. We are the slaves of the white man; we are nobody and have no rights or laws of any kind.'"—Hobson, *Imperialism; A Study*, 281, note.

influence which cannot be analyzed. It, also, threatens the home wage-worker with competition of cheap foreign labor. Such are the results of the competition of Western and primitive culture, when the contest is fought on the territory of the latter, and the weapons are all of Western fashioning.

34. The Export of Speculative Capital and War[15]

BY ALVIN S. JOHNSON

Let us look somewhat closely upon the structure of capital as an economic force. We shall find that it embraces two elements differing widely in character. The one, which we may denominate capital proper, is characterized by cautious calculation, but a preference for sure, if small, gains to dazzling winnings. The other, which we may call speculative enterprise, is characterized by a readiness to take risks, a thirst for brilliant gains.

Capital thrives best in a settled order of society, where the risks of loss are at a minimum. It accepts favors from government, to be sure, but politics is no part of its game; peace and freedom from disturbing innovations are its great desiderata. Speculative enterprise, on the other hand, thrives best in the midst of disorder. Its favorite field of operations is the fringe of change, economic or political. It delights in the realm where laws ought to be, but have not yet made their appearance. To control the course of legal evolution, to retard or divert it, are its favorite devices for prolonging the period of rich gains. Politics, therefore, is an essential part of the game of speculative enterprise.

At the outset of the modern era, speculative enterprise quite overshadowed capital proper. Colonial trade, government contracts, domestic monopolies were the chief sources of middle-class fortunes. But with the progress of industry, slow, plodding capital has been able steadily to encroach upon the field of enterprise. In our own society the promoter of railway, and public utilities, the exploiter of public lands, the trust organizer, are as prominent relatively as in any modern nation. Qantitatively, however, their interests are greatly inferior to those of the trader, manufacturer, banker, small investor, and the farmer, to whom a 10 per cent return is a golden dream and a 20 per cent one a temptation of the Evil One.

In a new country of vast natural resources there is sufficient scope for both speculative enterprise and capital proper. The United States has been such a country. There was easy money enough for

[15]Adapted from "The War—By an Economist," in the *Unpopular Review*, II, 420–428. Copyright (1914).

all men of shrewdness and resolution possessed of the necessary initial stake—public forests to be leveled, railways to be built or wrecked, trusts to be organized, cities to be provided with public utilities. But, in view of our changing attitude, this easy money appears to be in danger of being locked up. Already we are beginning to hear murmurs that, in view of the popular hostility to wealth, it will be necessary for American capital to look for foreign investments. Not foreign investments in England, France, and Germany, where government is efficient and capital proper prevails, but foreign investments in the undeveloped countries, in a Land of the Morning, "east of Suez."

The progress of modern industrial society, with its parallel development of the art of government, tends to the exclusion of speculative capital, and its concentration in the tropical and subtropical belts. In the older societies this process has been in operation for a considerable time. For generations British citizens have been taught to look to Asia, Africa, and America for sudden wealth. Although Germany had a slower start, the efficiency of government has recommended new countries to those looking for brilliant gains. In a generation much of our speculative capital will be employed in colonial exploitation.

Capital, it is often said, knows no such thing as patriotism. This may be true of the cautious, colorless capital of industry and finance. But an intense patriotism is avowed by J. J. Hill, by the DuPonts, by the Guggenheims. Most intense of all is the patriotism of the capitalist whose interest lies in the twilight zone of the barbaric belt. Purer expressions of concern for America's future than those now issuing from the lips of concessionaries in Mexico you never hear. We are all moved by the grandiose African dream of Cecil Rhodes: "all red"—i.e., British—a British heart within every black skin from the Cape to Cairo. The case is typical of the capitalist speculator abroad. By interest the concessionary capitalist is a patriot. He needs his country in his business. But this is no impeachment of his patriotism. His type is reckless and therefore idealistic. His private interests become submerged in his imperialistic ambitions. Patriotism has always burned more brightly in border provinces than in the heart of the national territory. It is natural, then, that patriotism should be still more intense in those extensions of the national domain represented by permanent investments abroad.

Now patriotism compounded with financial interests usually produces detestation for the corresponding alien compound. Speculators in South America and the Orient meet their rivals from other nations and hate them heartily. Those speculators are the nerve

ends of modern industrial nationalism, and they are specialized to the work of carrying sensations of hate. For the present we have few nerves of this kind. They have conveyed to us only a vague impression of the uneasiness felt by England and France over the German advance in the colonial field. And German speculators, thwarted in their designs by the English and French, have contributed to the popular feeling that Germany must fight for what she gets.

The capitalist speculator, even at home, enjoys a power over the popular imagination and a political influence quite incommensurate with the extent of his interests. When the seat of his operations is a foreign territory, whence flow back reports of his great achievements—achievements that cost us nothing, and that bring home fortunes to be taxed and spent among us—his social and political influence attains even more exaggerated proportions. And this is the more significant since his relations with government are concentrated upon the most sensitive of government organs, the foreign office.

When diplomatic questions concerning the non-industrial belt arise, and most diplomatic questions concern this belt, the voice of the concessionaries is heard at the council of state. The voice is the most convincing because of the patriotism that colors its expression of interest. More important, the ordinary conduct of exploitative business in an undeveloped state keeps the concessionary in constant relation with the consular and diplomatic officers established there. In a sense such officers are the concessionary's agents, yet their communications to the home office are the material out of which diplomatic situations are created.

It is accordingly idle to suppose that exploitative capital in foreign investments weighs in foreign policy only as an equal amount of capital at home. In view of the conditions mentioned, a small investment may prove a great menace to the peace of nations. For years Germany, Russia, England, and France have been brought to the belief that something very vital turns upon the control of the Land of the Morning. Indeed, the whole civilized world has been seduced into accepting this belief. Yes, something very vital for exploitative capital. Out of such delusions spring wars.

It is the interest of exploitative capital that makes the Morning Land, Mexico, China, and Africa rotten stones in the arch of civilization. But for exploitative capital, these regions might remain backward, socially and politically: this would not greatly concern any industrial nation, except so far as it responded to a missionary impulse. The backward states, however, afford possibilities of sudden wealth; and, since this is the case, they must attract exploiters, who

must seek and obtain the backing of their home governments, with resultant international rivalry, hostility, war.

In a short time there will be one new element in the situation, new, at any rate, to us. In a generation our strong men of speculative finance will be established in the undeveloped countries; concessions will figure conspicuously among the items of our national wealth. The foreign contingent of our capital will join in the battle for exploitative advantages. And who shall say that our country may not be a protagonist of the next great war? One-half of 1 per cent of our capital just failed of forcing us to subjugate Mexico.

If we could confidently predict the industrialization of the backward countries, we should be able to foresee an end of this one most fruitful of all sources of international strife. But China will not be industrialized for a generation at least; and many generations must elapse before the tropics are concession-proof. Accordingly the one hope for universal peace would appear to lie in the possibility of divorcing, in the popular consciousness, the concessionary interest from the national interest.

The concession and the closed trade are the fault lines in the crust of civilization. Solve the problem of the concession and the closed trade, the earth hunger will have lost its strongest stimulus, and peace, when restored, may abide throughout the world.

III

SOCIAL CONTROL IN MODERN INDUSTRIALISM

Our historical study has shown that our "system" as a whole is in process of development. But novelty and goodness are not one; the newer society because of its newness is not perforce better than the old; our world, though transformed, has not of necessity become a better world in which to live. Movement there always is; but movement may or may not mark an advance. This possible antithesis between development and progress raises perhaps the most important of all current problems, for in its terms other problems must find their "solution." Should society allow its development to take its "natural course," or should it attempt to control it?

No absolute answer can be given to so universal a question. If the natural course gives evidence of being the path we would mark out, obviously we should keep our hands off. If for such a reason laissez faire is deliberately chosen, paradoxical as it seem, it becomes merely a convenient instrument of social control. But if the "system is going awry," what shall we do? Just as obviously we should, to the extent of our intelligence and power, attempt to control the process.

But can we control so complex and many-sided a thing as social development? Unfortunately to this question we cannot give an unqualified affirmative. Many social "forces" are beyond our ken and power; others, of which we have some knowledge, cannot be reached by any contrivances which we have yet perfected; given programs promising definite results have the perversity to produce undreamed of complications; and immediate consequences have fallen into the disagreeable habit of distracting our attention from more ultimate and important results. It seems, therefore, that the wholesale prescription of "remedies" and the amateurish tinkering with parts are likely to prove dangerous. Yet, if we are sufficiently conscious of the limitations under which we are working, we can do something toward directing the movement. We know something of the elements involved; we have had much experience that should stand us in some stead; and we have evolved some very remarkable agencies of control. If we proceed cautiously, make our programs flexible, and quickly change our procedure to meet the unexpected contingencies which are inevitable, there is reason for faith in our ability eventually to accomplish much. If we essay the task, we shall need a knowledge of the means of control, a theory of the use of these means, and a consciousness of the "end" for which they are used. Let us consider these in turn.

Even if our desires be quite modest, they will necessitate the use of numerous and varied means of control. The changes which we wish to effect may be in the structure of society, in institutions, in activities, or in values; they may call for immediate and mechanical action or they may necessitate slow and gradual adaptations; they may affect almost the whole of society or may immediately touch only a single aspect of life. For these and a myriad other uses instruments of social control are available. The state can be used to secure quick mechanical changes; the school and the church can be used slowly to effect more gradual and organic adaptations; the labor union,

by sharp, incisive action, can immediately further the interest of a group; the interest of a like group may gradually be advanced by a voluntary association using more peaceful methods; press and public opinion can reach a large part of society; occupational associations and codes of ethics can exercise a control over particular groups; and convention and tradition, through their prohibitions and inhibitions, can effectively direct the lives and activities of the individuals. Each of these agencies in its own way can be used to make the "system" somewhat different. Because of the multiplicity, variety, and efficiency of these agencies—despite the gravity of our ignorance —we could not escape social control if we would.

Our theory of the use of these "forces" has been very gradually built up, and as yet is far from complete. During most of the nineteenth century, when "the country was in a stage of increasing returns," when self-reliance was dominant, and when men dared not meddle with the rising machine-system which they very imperfectly understood, the dominant theory was that of laissez-faire. This theory overlooked entirely the influence exerted by agencies other than the state, as well as a large number of active functions performed by government, such as the protection of property and the maintenance of contract. At present the hold of individualistic theory is weakening. The frontier is gone; we are confronted by the grave problems of a mature society; we are less prone to attribute success or failure to personal merit or demerit; and we talk of "social conditions" and "inequality of opportunity." All of this inclines us to depend more upon authority, and threatens a radical extension of state activity. But there are potent checks upon this attitude. The interpretation of our constitution still proceeds from individualistic assumptions; the pecuniary organization of society still gives great weight to the views of the owners of "vested wealth"; and in many places a spirit of abandon in legislation is doing much to discredit state interference. But we are quite consciously coming to complement our theory of the province of government with a theory of the use of other agencies of control. For we are learning that we must pay for what we get, that legislation cannot produce utopias, that good is achieved rather than acquired, and that the less conspicuous agencies of control are as certain as they are slow.

A consciousness of the end for which these means are used is hardest for us to acquire. But, difficult as the task is, we must realize that, if we attempt social control we must know what we are about; we must have a tentative goal; we must appreciate the "end" at which we are aiming. To achieve that end our proposals must fit together into consistent programs; the instruments of control which we use must complement each other. This does not mean that there must be no elements of antagonism in the system, but rather that there must not be the spoiled work which comes from the confused counsel whose origin is in dealing with problems in isolation. Consciousness of the "end" also involves looking beyond immediate proposals. Beyond conflicting proposals, seemingly unimportant, lie powerful social theories, quite contradictory in the kind of societies they tend to produce. In many problems, therefore, the ultimate issue is between different systems. Shall our ideal be that of a personal and industrial feudalism, an individualistic America of the nineteenth century, a socialized Germany of the Hohenzollerns, an idealized and Marxianized state, or something else? Upon our conception of the ideal state toward which "progress" should carry us depends our "solution" of the problems which we are about to discuss.

A. THE NATURE OF PROGRESS

35. What Is Progress?[1]

BY JAMES BRYCE

When we say that man has advanced, or is advancing, of what lines of advance are we thinking? The lines of movement are really as numerous as are the aspects of man's nature and the activities which he puts forth. Taking his physical structure, is mankind on the whole becoming stronger, healthier, less injured by habits which depress nervous and muscular forces, and are the better stocks of men increasing faster than the inferior stocks? Considered as an acquisitive being, has man more of the things that make for comfort, more food and clothing, better dwellings, more leisure? Intellectually regarded, has he a higher intelligence, more knowledge and opportunities for acquiring knowledge, more creative capacity, more perception of beauty and susceptibility to aesthetic pleasures? Considered in his social relations, has he more personal freedom, is he less exposed to political oppression, has he fuller security for life and property, are there more or less order and concord within each community, more or less peace between nations? Lastly, is man improving as a moral being? Is there more virtue in the world, more sense of justice, more sympathy, more kindliness, more of a disposition to regard the feelings and interests of others and to deal gently with the weak? In each and all of these departments there may be progress, but not necessarily the same rate of progress, and we can perfectly well imagine a progress in some points only, accompanied by a stagnation or even a decline in other points.

When we talk of the progress of the world, do we mean an advance in all these respects, or only in some, and if so, in which of them? If in all of them, which are the most typical and the most significant? Suppose there has been an advance in some, and in others stagnation or retrogression, how shall we determine which are the most important, the most fraught with promise or discouragement? An examination of the language of popular writers indicates that the current conception has been seldom analyzed. Such writers have seemed to have assumed that an improvement in some aspects of human life means an improvement in all, perhaps an improvement to something like the same extent. Another question suggests itself. Is the so-called Law of Progress a constant one? Suppose its action in the past to have been proved, can we count upon its continuing

[1]Adapted from an article in the *Atlantic Monthly*, C, 147. Copyright (1907).

in the future, or may the causes to which its action has been due some time or other come to an end? I pass over other points that might be raised. It is enough to have shown in how vague a sense the current term has been used.

36. Evolution or Progress?[2]

BY L. T. HOBHOUSE

I use the term "evolution" in regard to human society, and also the term "progress." This should imply that there is some difference between them. By evolution, I mean any sort of growth; by social progress, the growth of social life in respect to those qualities to which human beings attach or can rationally attach value. Social progress, then, is only one among many possibilities of social evolution. At least it is not to be assumed that every and any form of social evolution is also a form or stage in social progress. For example, the caste system is a product of social evolution, and the more rigid and narrow the caste, the more complex the hierarchy, the more completely has the caste system evolved. But most of us would question very strongly whether it could be considered in any sense a phase of social progress. So again there is at the present day a vigorous evolution of cartels, monopolies, rings and trusts; there is an evolution of imperialism, of militarism, of socialism, of a hundred tendencies as to the good or evil of which people differ.

The fact that a thing is evolving is no proof that it is good; the fact that society has evolved is no proof that it has progressed. The point is important because under the influence of biological conceptions the two ideas are often confused, and the fact that human beings have lived under certain conditions is taken as proof of the value of those conditions, or perhaps as proving the futility of ethical ideas which run counter to evolutionary processes. Thus in a recent article I find a contemptuous reference to "the childlike desire to make things fair," which is "so clearly contrary to the order of the universe which progresses by natural selection." In this brief remark you will observe two immense assumptions, and one stark contradiction. The first assumption is that the universe progresses—not humanity, observe, nor the mass of organic beings, nor even the earth, but the universe. The second is that it progresses by natural selection, a hypothesis which has not yet adequately explained the bare fact of the variation of organic forms on the surface of the earth. The contradiction is that progress is incompatible with fairness, the basic element in all judgments of

[2]Adapted from *Social Evolution and Political Theory*, 7–25. Copyright by the Columbia University Press (1911).

value, so that we are called upon to recognize as valuable that by which our fundamental notions of value are set at naught.

By studying certain sides of organic process people arrive at a particular hypothesis of the nature of the process. They erect this hypothesis into an universal and necessary law, and straightway call upon everyone else to acknowledge the law and conform to it in action. They do not see that they have passed from one sense of law to another, that they have confused a generalization with a command, and a statement of facts with a principle of action. They accordingly miss the starting point from which a distinct conception of progress and its relation to human effort becomes possible. But for any useful theory of the bearing of evolution on social effort this conception is vital. We can get no light upon the subject unless we begin with the clear perception that the object of social effort is the realization of ends to which human beings can rationally attach value, that is to say, the realization of ethical ends; and this being understood, we may suitably use the term progress of any steps leading towards such realization.

Our conclusion so far is that the nature of social progress cannot be determined by barely examining the actual conditions of social evolution. Evolution and progress are not the same thing. They may be opposed. They might even be so fundamentally opposed that progress would be impossible.

Because of the influence of biological notions on social and economic thought, one phase of the Darwinian theory must be noted. The main effect of his work in the world of science was to generate the conception of the progress of organic forms by means of a continuous struggle for existence wherein those best fitted by natural endowment to cope with the surroundings would tend to survive. In our field, after Darwin, it began to be held that man, in spite of his philosophy, was still an animal, still subject to the same laws of reproduction and variation, still modifiable in the same manner by the indirect selections of the individuals best fitted to their environment. The biological social philosopher had not to trouble himself about what was best; nor, like the social investigator, to remain in doubt as to the broadest principles regulating the life of society. On both these questions his doubts were already solved by what he had learned in biology itself. The best was that which survived, and the persistent elimination of the unfit was the one method generally necessary to secure the survival of the best. Armed with this generalization he found himself able to view the world at large with much complacency.

To him life was constantly and necessarily growing better. In every species the least fit were always being destroyed and the

standard of the survivors proportionately raised. No doubt there remained in every society many features which at first sight seemed objectionable. But here again the evolutionist was in the happy position of being able to verify the existence of a soul of goodness in things evil. Was there acute industrial competition? It was the process by which the fittest came to the top. Were the losers in the struggle left to welter in dire poverty? They would the sooner die out. Were housing conditions a disgrace to civilization? They were the natural environment of an unfit class, and the means whereby such a class prepared the way for its own extinction. Was infant mortality excessive? It weeded out the sickly and the weaklings. Was there pestilence or famine? So many more of the unfit would perish? Did tuberculosis claim a heavy toll? The tubercular germs are great selectors skilled at probing the weak spots of living tissue. Were there wars and rumors of wars? War alone would give to the conquering race its due, the inheritence of the earth. In a word the only blot that the evolutionist could see upon the picture was the "maudlin sentiment" which seeks to hold out a hand to those who are down. The one sinner against progress is the man who tries to save the lamb from the wolf. Could we abolish this unscientific individual, the prospects of the world would be unclouded.

Yet, before we apply biological conceptions to social affairs, we generally suppose that the highest ethics is that which expresses the completest mutual sympathy and the most highly evolved society that in which the efforts of its members are most completely coördinated to common ends, in which discord is most fully subdued to harmony. Accordingly we are driven to one of two alternatives. Either our valuations are completely false, our notions of higher or lower unmeaning, or progress does not depend upon the naked struggle for existence. The biologist would cheerfully accept the first alternative. As we have already seen, he is disposed to tell us that we vainly seek to distort truth by importing our ethical standards. He is quite ready to insist that we must subordinate our judgments of value to the survival test. We must judge good that which succeeds. Unfortunately for him at that stage his whole theory becomes a barren tautology. Progress now in his view results from the survival of the fittest, because progress is the process wherein the fittest survive. Again it is always the fittest who survive, because the fact of their survival proves their fitness.

37. The Criteria of Progress[3]

BY JAMES BRYCE

In our study of the supposed forward movement of mankind, let us begin with two comparatively easy lines of inquiry: the physical characteristics of the human species, and the conditions under which the species has to live; and let us see what conclusions can be reached by examining these.

Additions to the number of the human race are popularly treated as if they were an undoubted benefit. We see every nation and every community regarding its own increase as something to be proud of. But is the increase of the race any gain to the race? The population of Europe is three or four times, and that of North America twenty times, as large as it was two centuries ago. This proves that there is much more food available for the support of life, much more production of all sorts of commodities, and in particular an immense increase in the area of land used for producing food, with an improvement in the methods of extracting food from the land. So the growth of a city like Boston or Chicago proves that there has been an immense increase in industry. Men work harder, or at any rate more efficiently, and have far better appliances for production at their command.

Whether they live happier lives is another matter. It used to be said that he who made two ears of corn grow where only one ear had grown before was a benefactor to the race. Is that necessarily so? The number of men who can live off the soil is larger, but the men need not be better off. If there is more food, there are also more mouths. Their lives may be just as hard, their enjoyments just as limited. Some parts of the earth are already too crowded for comfort. The notion that population is *per se* a benefit and a mark of progress seems to be largely a survival from a time when each tribe or city needed all the arms it could maintain, to wield sword and spear against its enemies. "As arrows in the hands of a giant, even so are young children," says the Psalmist; and when men are needed to fight against the Hittites, this is a natural reflection. It may also be due partly to an unthinking association between growth and prosperity.

Let us pass to quality. The most remarkable fact of the last few centuries has been the relatively more rapid growth of those whom we call the more advanced races, Teutonic, Celtic, and Slavonic. Nineteen centuries ago there were probably less than ten

[3]Adapted from an article in the *Atlantic Monthly*, C, 147–156. Copyright (1907).

million people belonging to these three races. There are today probably over three hundred and fifty million, while the so-called backward races have increased more slowly, and are now everywhere under the control of the more advanced races. In duration of life, too, there is unquestionably an improvement. Lunacy, however, is increasing. This seems to imply that there are factors in modern life which tend to breed disorders in the brain. In this connection a still more serious question arises.

The law of differentiation and improvement by means of natural selection and the survival of the fittest may reasonably be thought to have done its work during the earlier period of the history of mankind. The races which have survived and come to dominate the earth have been the stronger races; and, while strife lasted, there has always been a tendency for physical strength and intelligence to go on increasing. The upper classes in every community were always stronger and handsomer than the classes at the bottom of the scale. The birth-rate was probably higher among the aristocrats, and the chance of the survival of infants better. But in modern society the case is quite otherwise. The richer and more educated classes marry later and as a rule have smaller families than the poorer class, whose physique is generally weaker and whose intelligence is generally on a somewhat lower level. The result is that a class in which physical strength and a cultivated intelligence are hereditary increases more slowly than do classes inferior in these qualities. Fortunately, the lines of class distinction are much less sharply drawn than they were some centuries ago. The upper class is always being recruited by persons of energy and intellect from the poorer classes. Still we have here a new cause which may tend to depress the average level of human capacity.

The improvement, so far as attained, in the physical quality of mankind is largely due to such changes in its environment as the greater abundance of food and clothing, the better conditions of housing, the diffusion of property among all classes in the community. Along these lines the improvement has been extraordinary. The luxury of the rich, the comfort of the middle class, the comparative immunity of the poorer classes from famine and pestilence, have increased within the last two centuries more than they had during many preceding centuries.

Most remarkable of all has been the cause of these improvements, namely, the increase in our knowledge of natural laws and the power over natural forces which has been thereby acquired. Man has now, by comprehending Nature, become her master. These are the things which are commonly in our mind when we talk of

Progress. It is the wonderful gains made in these things which are visible and tangible and which affect our daily life at every turn that have struck the popular mind, and have seemed to mark, not only a long onward step, but the certainty of further advance. Material progress has seemed to sweep everything else along with it.

Whether this be so is the very question we have to consider. Does our increased knowledge and command of nature, do all those benefits and comforts which that mastery has secured, so greatly facilitate intellectual and moral progress that we may safely assume that there will be an increase in intelligence, in virtue, and in all that is covered by the word Happiness? It seems hard not to believe it.

Certainly we see under these new conditions less anxiety, less occupation with the hard necessities of finding food and clothing. Work itself is less laborious, because more largely done by machinery. There is more leisure that can be used for the acquisition of knowledge and for setting thought free to play upon subjects other than practical. The opportunities for obtaining knowledge have been extended and cheapened. Transportation has become cheap, easy, and swift, enriching and refreshing the mind by foreign travel. Works of art are produced more abundantly. The mere increase of population and purchasing power has a favoring influence upon intellect, because there is more demand for the products of intellect and more persons employed in their production. Thus it is clear that material progress provided at least unprecedented facilities and opportunities for intellectual progress. And the quantity of intellectual activity has enormously increased.

Quality, however, must also be considered. Plato hinted that the invention of writing had weakened the powers of the human mind. We may well doubt whether the intellectual excellence of the age can be measured by the number of speeches or the amount of printed matter it produces, and whether the incessant reading of newspapers and magazines tends on the whole to strengthen the habit of thinking.

Material progress has affected the forms which intellectual activity takes and the lines of inquiry which it follows. But there is no evidence that it has done more to strengthen than to depress the intensity and originality and creative energy of intellect itself; nor have these qualities shown themselves more abundant as the population of the earth has increased. And, as for accomplishment intellectually, may there not be a limit to this kind of advance, and may we not be approaching that limit?

But, if it has proved difficult to say how far material progress and the diffusion and extension of knowledge have stimulated and

are likely to stimulate intellectual progress, still harder is it to estimate their influence on the standard of moral excellence. What is Moral Progress? The ancient philosophers would have described its aim as being Harmony with Nature, that is, with those tendencies in man which lead him to his highest good by raising him above sense temptations. Augustine or Thomas Aquinas would have placed it in conformity to God's will to which all thoughts and passions should be attuned. Neither of these ideals had any relation to material progress, and saints would probably have thought such progress hurtful rather than helpful to the soul.

To estimate the degree in which some sins or vices have declined and others have developed, the extent to which some virtues have grown more common and others more rare; to calculate the respective ethical values of the qualities in which there has been an improvement and a decline; and to strike a general balance after appraising the worth of all these assets—this is a task on which few would care to enter. No analysis and no synthesis could make much of data so uncertain in quantity and so disputable in quality. Different virtues rise and fall, bloom and wither, as they inspire joy or command admiration.

It may, however, be suggested that there is one thing whose relation to material progress must somehow be the ultimate test of every kind of advance. It is Happiness. But what is Happiness? Is it Pleasure? Are pleasures to be measured by a qualitative as well as a quantitative analysis? Shall we measure them by the intensity by which they are felt or by the fineness and elevation of the feeling to which they appeal? Is the satisfaction which Pericles felt in watching the performance of a drama of Sophocles greater or less than the satisfaction which one of his slaves felt in draining a jar of wine?

The comparison of our own age with preceding ages does not solve the problem. Most of us probably rejoice that we did not live in the fifth or even the seventeenth century. But can we be sure that the individual man in these centuries had a worse time than the average man now has? He was in many points less sensitive to suffering than we are, and he may have enjoyed some things more intensely. True, the fear of torment brooded like a black cloud over the minds of past generations. Yet we know that many persons look back to the Ages of Faith as ages when man's mind was far more full of peace and hope than at present.

Happiness is largely a matter of temperament, and temperament largely depends upon physiological conditions, and the physiological

conditions of life are much affected by economic and social conditions. How can we then determine whether the excitement and variety of modern life make for happiness?

We may seem to be better equipped for prophesy than we were, because we have come to know all the surface of the earth, and its resources, and the races that dwell thereon, and their respective gifts and capacities. But how these elements will combine and work together is a problem apparently as inscrutable as ever. The bark that carries Man and his fortunes traverses an ocean where the winds are variable and the currents unknown.

B. THE CONTROL OF ECONOMIC ACTIVITY

38. The Agencies of Social Control

BY ELIZABETH HUGHES

The prominence attached to government interference with industrial enterprise has caused the other ways in which society orders, directs, and defines the efforts of individuals to be overlooked. Social control, it must be remembered, has many channels through which to spread and need confine itself at no time to the single course of overt legislation.

Group will operates most persistently and potently through the great unwritten rules and restrictions imposed by custom, which through their very familiarity often escape observation. A glance at Eastern, then at Western, civilization may serve to show by contrast how far-reaching and permeating is custom's influence upon industrial life. In Eastern countries custom decrees that trades shall be hereditary; that the tools and methods used by ancestors shall continue to be used by present-day workers; and that human labor shall not be supplanted in any marked degree by machine effort, but only supplemented somewhat by it. Western civilization, on the contrary, adopts as its fetish the new rather than the old, favors development rather than stagnation—in a word, tends to make change itself customary and normal. In production machinery is extensively used, and a child may follow quite another trade than his father's, or, if he adopts his parent's calling, need not execute it in precisely the same manner. But though Western society is not stereotyped to the degree to which the social groups of the Orient are, it nevertheless shows more than traces of conservatism. Mill-owners, for example, through custom cling to child labor; merchants determine selling prices by adding customary percentages of profit, differing greatly in different trades; the standardization of woman's

dress makes little headway against the custom of frequent and radical changes in style; spring millinery is marketed in January in spite of untoward weather; extra clerks are hired at Christmas to meet the demands of those whom no society for the suppression of useless giving can deter from eleventh-hour activity in buying. It is custom which leads people to continue patronizing the dealer and the brand of goods they have formerly found satisfactory—or unsatisfactory—instead of accepting the "just-as-good" substitutes. Without the power of custom "good will" could not be capitalized as an asset, and trademarks would not be desirable. Custom, then, does actively and potently aid in regulating industry.

The various institutions of society epitomize forms of social control. Schools with their industrial departments in a measure supplant the older system of apprenticeship and by their vocational guidance bureaus attempt to place children in fitting occupations. The press, the pulpit, and the platform are agents for the dissemination of ideas; and, by the impression of group ideas and standards upon individuals, foster the establishment of social solidarity. Through these a society's codes of ethics find expression: exploitation of workmen, for example, is frowned upon; an opportunity for everyone is coming to be regarded as a matter of right; and it is insisted that competition shall be free and not "cut-throat."

In addition to the general ethical codes of society are the particular codes of the different professions. For instance the code of the medical profession exercises a restraining and compelling influence over many activities of its members. It is responsible alike for the custom of non-advertisement of medical services, a large amount of charity work, and a system of class prices that frequently becomes "charging what the traffic will bear." The medical man's code rules out many of the things which law permits, and stands in sharp contrast to the principles of the business man who still holds to the "eye-for-an-eye" doctrine and looks upon shrewdness and sagacity as cardinal virtues, honesty as a matter of policy, and good will as desirable private capital. He is, however, unlike the medical man, constrained to charge rich and poor a single price for his wares, thus more adequately protecting "the consumer's surplus" of the well-to-do classes than it is protected from the medical fraternity. On the contrary there is no gratuitous gift to the ne'er-do-well.

Lawyers, ministers, and teachers—each in turn have their codes. The tyranny of social custom shows itself especially in the standard of living which each of the professional classes is expected to maintain. Salaries and fees must be high enough in the aggregate to make a given standard attainable with circumspect expenditure.

A man in choosing his profession adopts along with his choice an obligation to obey the ethical code society and the particular group he has joined expects him to follow. If medicine, he must live up to the ethics of the medical profession; if law, he must obey its behests under penalty of debarment; if certain particular lines of business, he must rise or stoop to the plane of competition maintained in these lines, since nonconformity automatically excludes through business disaster those who do not conform.

He may subject himself still further to voluntary compulsion by joining a club or an association; for clubs and associations, of whatever sort they be, have in common the exercise of general control over members. The trade unionist, for example, may not "scab" even if he is unemployed because of a strike he did not vote for; nor may he speed up even though he can easily increase his earnings through piece-work; nor work overtime without extra pay; nor buy anything without a union label; nor print anything except on a union press. Just so the employer who has allied himself with an employers' association must uphold in relation to his laborers those principles and stipulations upon which the association has agreed. He must conduct his business less in accord with his individual will and more as the group has deemed best. Again there is the Consumers' League, whose members pledge themselves to patronize only those manufacturers who measure up to a standard set by the League and attain thereby unto an honored place on its white list and win the right to use the Consumers' label.

Enough has been said to show that government regulation is only one form of social control. In fact, it would seem as if, in a democratic society, legislation is only resorted to when there is conflict in control exerted by different groups within society at large. The more satisfactory the control by the smaller group, the less the economic or social oppression of one by another, the less the interference of society at large through law and governmental control.

39. The Family as an Agency of Control

The importance of social control lies in its performance of two functions. The first is the organization of industrial society; the second, the direction of social activities to ends that constitute progress. These results require for their accomplishment the use of a variety of institutions. So prevalent has become the habit of expressing this problem in terms of the Individual and the State, that we are prone to overlook the less obvious, but extremely important, agencies of control. The influences of some of these, both in holding society together and in directing its development, are far more ex-

tensive and their sanctions far more compelling than even state authority. In fact such is their power that one of the principal functions of the state has come to be forcing upon a small minority modes of action which have been developed through other agencies and which have already come to exercise a compelling influence over the majority. A single example, that of the Family, will serve to show the nature and efficiency of these usually neglected agencies.

The industrial system is in general manned by adults; so we are too prone to overlook the industrial importance of children. The latter constitute an incipient industrial force; to them the management and operation of the industrial system will in course of time be intrusted. How this task is performed depends to a large extent upon influences brought to bear upon them while they are still unincumbered with active industrial duties. The system demands personal efficiency; it must have workers who are capable of sustained effort. This is an acquired characteristic. The savage does not possess it; improper home influences may prevent the civilized child from acquiring it. Its acquisition is very closely associated with the habits of home discipline. The common ethical standards to be applied to business dealings are also quite dependent upon the same influences. The home develops individual norms; these grow into class and social norms, which exercise over the individual vital control of actions through all-compelling imperatives and inhibitions.

Industrial efficiency likewise depends upon the proper distribution of workers among the different occupations. The decisions affecting this distribution are not always made by the heads of families, but all of them are surrounded by many and varied family influences. The preparation for entering the chosen occupations is usually made under the same influences. Since the organization of society as well as its development is contingent upon a proper distribution into occupational groups, the importance of this cannot very well be underestimated. The freedom which an individual possesses to choose and change his own occupation usually does not come to him until a time when an exercise of this freedom would be attended by losses too great to permit it.

Both the immediate welfare and the progress of society vitally depend upon the proportions between the three factors of production—land, labor, and capital. The family, more than any other institution, controls the increase in the two factors subject to increase, capital and labor. The origin of capital, as we know, is in savings. Savings are what is left of the family income when the family expenses have been met. Since the expenditure depends very largely upon family habits, the dependence of capital upon this institution is clearly seen. Family influences, too, are quite potent in

inculcating habits of thrift or prodigality, thus affecting capital accumulation in the next generation.

The supply of labor is controlled through a control of the number of people. A new state, possessed of undeveloped resources, can partially control its numbers, through regulation of immigration. But such a state has least need for controlling its numbers. As the country develops, as resources are utilized, and as immigration falls off, a control of numbers becomes more and more a control of the birth-rate. No state has thus far succeeded directly in controlling the number of births. Even indirectly its influence has not been very potent. This matter has been in the past, and will be in the future very largely, left to the family. Yet upon this question of numbers rest very vital economic considerations, including the questions of wages, standards of living, capacity for material development, etc. In brief, the forces influencing the sizes of the productive funds out of which wealth is to be increased are very largely familial.

It is often said that wants are the mainspring of economic activity; that it is the possession of wants which is responsible for our industrial system. If this is so, we must remember that the wants which lead to industrial endeavor, particularly to the fullest utilization of personal productive capacities, are familial, rather than personal, wants. The beginning and end of the economic process lie in the family. It is, both directly and indirectly, one of the most potent factors in organizing society and in determining the direction of its development.

40. The State as an Institution of Social Control[4]

BY EDWIN CANNAN

The existence of the state and the order enforced by it makes it possible for property to play a part in organization. We might conceive a state of things where co-operation carried on under the influence of property might exist without any organized authority of government. But such a state of things has never been realized, nor is likely to be. So the state has been necessary in the past and is likely to continue to be so in the immediate future. Further, even in a society of perfectly just men it would be desirable to have some common authority to make changes when necessary. Otherwise progress would be exceedingly slow, since it would have to be imperceptible. If fast enough to be perceptible, it would seem to violate

[4]Adapted from *Wealth: A Brief Explanation of the Causes of Economic Welfare,* 89–95 (1914).

custom and would, therefore, be tabooed, in the absence of machinery for discussing reasons and passing judgment on them.

In the eighteenth century there grew up a school of thinkers who said to the governments of the time, "Laissez faire" or "Let alone." The more philosophical among them were influenced by the cult of Nature prevalent at the time, thinking that certain institutions were natural and therefore good, while others were artificial and bad. They wanted the institutions which they thought natural let alone and the others abolished. The practical men wanted certain institutions abolished which they regarded as harmful, and did not trouble themselves to think of the others. The natural institutions of the philosophers are now seen to be nothing but slight modifications of the institutions of their own time. To the practical man, the precept "Laissez faire" never meant "Leave everything alone," nor even "Leave all natural things alone," but simply, "Leave alone certain things which I think ought to be left alone." The practical men got their way to a considerable extent, and therefore it has become the fashion to speak of the "laissez-faire period." But there never was and never can be a state which practices this policy. The very establishment of the State negatives a policy of complete "Let alone."

In primitive times the demand upon the authority which represents the State is constantly for the enforcement of "good old customs." When the State complies, it is not letting alone, but taking an active part in the enforcement of these customs, which might otherwise fall into disuse owing to violation by interested parties. Moreover, the enforcement of these customs, coupled with neglect to enforce other customs, involves a discrimination favorable to progress. Consequently there was a large amount of "State interference" even in periods when the State seemed to do nothing except to reinforce the people's respect for custom.

The general enforcement of law and order and the facilitation of necessary and desirable changes in that law and order, though perhaps the most vital, is by no means the only important function of the State in economic organization. Separate property in land has never covered the face of any considerable country. A network of narrow strips forming the means of communication is always found outside the limits of private property. Without this reservation from private property any considerable amount of communication would be impossible. Hence provision of the means of communication has always been in the hands of the State. Where private parties build railways they are granted by the State the right of eminent domain,

or the power to buy the land they need to get the required consecutive strip, even if the owners do not wish to sell. They have to pay only fair "compensation."

In modern times a number of other things have grown up which resemble the means of communication in being spread over large areas in thin lines. Water, drainage, gas and electric lighting, telegraphic and telephonic communications, require a laying of a network of wires all over the face of the world. It is constantly necessary to acquire private property for a part of this work. These things are very similar to roads, railways, and canals in many of their characteristics, and are therefore dealt with in much the same way. In helping to provide these engineering works required for the progress of invention and the thicker population in modern times, the State may be said to be arranging for a necessary supplement to the organization based on separate property.

Some kind of organization covering the whole industrial territory and armed with certain disciplinary powers is obviously necessary, and is supplied by the State; badly as it works in its earlier forms, it is never worse than the chaos which preceded it, and as time goes on it is gradually improved.

C. THE STATEMENT OF THE LAISSEZ-FAIRE THEORY

41. The Fundamental Law of Nature[5]

BY WILLIAM BLACKSTONE

As, therefore, the Creator is a being, not only of infinite power and wisdom, but also of infinite goodness, he has been pleased so to contrive the constitution and frame of humanity, that we should want no other prompter to enquire after and pursue the rule of right, but only our self love, that universal principle of action. For he has so intimately connected, so inseparably interwoven the laws of external justice with the happiness of each individual that the latter cannot be attained but by observing the former, and if the former be punctually obeyed, it cannot but induce the latter. In consequence of which mutual connection of justice and human felicity, he has not preplexed the law of nature with a multitude of abstracted rules and precepts, referring merely to the fitness or unfitness of things, as some have vainly surmised, but has graciously reduced the rule of obedience to this one paternal precept, "that man should pursue his own true and substantial happiness." This

[5] *Commentaries on the Laws of England,* Book i, sec. 2 (1765).

is the foundation of what we call ethics or natural law; for the several articles into which it is branched in our system amount to no more than demonstrating that this or that action tends to man's real happiness, and therefore very justly concluding that the performance of it is a part of the law of nature; or, on the other hand, that this or that action is destructive to man's real happiness, and therefore that the law of nature forbids it.

42. A Diatribe against Human Institutions[6]

BY J. J. ROUSSEAU

All things are good as their Author made them, but everything degenerates in the hands of man. By man our native soil is forced to nourish plants brought from foreign regions, and one tree is made to bear the fruit of another. Man brings about a general confusion of elements, climates, and seasons; he mutilates his dogs, his horses, and his slaves; he seems to delight only in monsters and deformity. He is not content with anything as Nature left it.

As things now are, a man left to himself from his birth would, in his association with others, prove the most preposterous creature possible. The prejudices, authority, necessity, example, and, in short, the vicious social institutions in which we find ourselves submerged, would stifle everything natural in him, and yet give him nothing in return. He would be like a shrub which has sprung up by accident in the middle of the highway, to perish by being thrust this way and that and trampled upon by passers-by. All our wisdom consists in servile prejudices; all our customs are but suggestions, anxiety and constraint. Civilized man is born, lives, dies in a state of slavery. At his birth he is sewed in swaddling clothes; at his death he is nailed in a coffin; as long as he preserves the human form he is fettered by our institutions.

43. A Plea against Governmental Restraints[7]

BY ADAM SMITH

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.

[6] *Émile ou l'Éducation,* liv. I (1762).

[7] *The Wealth of Nations,* Book iv, chap. ii (1776).

First, every individual endeavors to employ his capital as near home as he can, and consequently as much as he can in the support of domestic industry, provided always that he can thereby obtain the ordinary, or not a great deal less than the ordinary, profits of stock. Secondly, every individual who employs his capital in the support of domestic industry necessarily endeavors so to direct that industry, that its produce may be of the greatest possible value.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavor to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or, rather, is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority

which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

44. A General Condemnation of Government[8]

BY WILLIAM GODWIN

Society is an ideal existence, and not on its own account entitled to the smallest regard. The wealth, prosperity, and glory of the whole are unintelligible chimeras. Set no value on anything, but in proportion as you are convinced of its tendency to make individual men happy and virtuous. Benefit, by every practical mode, man wherever he exists; but be not deceived by the specious idea of affording services to a body of men, for which no individual man is the better. Individuals cannot have too frequent or unlimited intercourse with each other; but societies of men have no interests to explain and adjust, except so far as error and violence may render explanation necessary. This consideration annihilates at once the principal objects of that mysterious and crooked policy which has hitherto occupied the attention of governments.

Government can have but two legitimate purposes, the suppression of injustice against individuals within the community, and the common defence against external invasion.

Legislation, that is, the authoritative enunciation of abstract or general propositions, is a function of equivocal nature, and will never be exercised in a pure state of society, or a state approaching to purity, but with great caution and unwillingness. It is the most absolute of the functions of government, and government is itself a remedy that invariably brings its own evils along with it. Legislation, as it has been usually understood, is not an affair of human competence. Reason is the only legislator, and her decrees are irrevocable and uniform. The functions of society extend, not to the making, but the interpreting of law; it cannot decree, it can only declare that which the nature of things has already decreed, and the propriety of which irresistibly flows from the circumstances of the case.

The true reason why the mass of mankind has so often been made the dupe of knaves has been the mysterious and complicated nature of the social system. Once annihilate the quackery of government, and the most homebred understanding will be prepared

[8]Adapted from *An Enquiry concerning Political Justice and Its Influence on General Virtue and Happiness,* 514, 561, 564, 555, 168, 575, 579 (1793).

to scorn the shallow artifices of the state juggler that would mislead him. With what delight must every well informed friend of mankind look forward to the auspicious period, the dissolution of political government, of that brute engine, which has been the only perennial cause of the vices of mankind, and which has mischiefs of various forms incorporated with substance, and not otherwise to be removed than by its utter annihilation.

45. The Identity of Individual and Social Good[9]

BY PIERCY RAVENSTONE

Nature has implanted in every man's breast an instinct which teaches him intuitively to pursue his own happiness; and, by connecting the welfare of every part of society with that of the whole, she has wisely ordained that he shall not be able to realize his own wishes without contributing to the happiness of others.

Every man may thus safely be intrusted with the care of working out his own prosperity. It is not necessary for governments, it is therefore no part of their duty, to teach to individuals what will most conduce to the success of their pursuits; they are ill-calculated for such a superintendence. All care of this sort is on their part wholly impertinent. Their functions are of quite a different nature; to correct the vicious attachment to their own interests which too frequently induces men to seek their own apparent good by the injury of others, which would disorder the whole scheme of society, to bring about what they mistakenly consider their own happiness. To restrain, not to direct, is the true function of the government; it is the only one it is called on to perform, it is the only one it can safely execute. It never goes out of its province without doing mischief. The mischief is not always apparent, for the constitution of the patient is often sufficiently strong to resist the deleterious effects of the quackery. But it is not safe to try experiments which can do no good, merely because the strength of the patient may prevent them from being injurious.

The spirit of interference has never manifested itself so strongly as of late years. It constitutes the very essence of modern political economy. Everything is to be done by the state; nothing is to be left to the discretion of individuals. It is proposed to transfer men into a species of political nursery-ground, where the quality of plants is to be regulated with mathematical exactness, to be fitted to the capacity of the soil; where every exuberance in their shoots

[9]From *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy*, 2–3 (1821).

is to be immediately pruned away, and their branches confined within the bounds of the supporting espalier.

46. A Protest against Useless Restrictions[10]

BY JEREMY BENTHAM

Ashurst.—The law of this country only lays such restraints on the actions of individuals as are necessary for the safety and good order of the community at large.

Truth.—I sow corn: partridges eat it, and if I attempt to defend it against the partridges, I am fined or sent to gaol: all this, for fear a great man, who is above sowing corn, should be in want of partridges.

The trade I was born to is overstocked; hands are wanting in another. If I offer to work at that other, I may be sent to gaol for it. Why? Because I have not been working at it as an apprentice for seven years. What's the consequence? That, as there is no work for men in my original trade, I must either come upon the parish or starve.

There is no employment for me in my own parish: there is abundance in the next. Yet if I offer to go there, I am driven away. Why? Because I might become unable to work one of these days, and so I must not work while I am able. I am thrown upon one parish now, for fear I should fall upon another, forty or fifty years hence. At this rate how is work ever to be got done? If a man is not poor, he won't work: and if he is poor, the law won't let him. How then is it that so much is done as is done? As pockets are picked—by stealth, and because the law is so wicked that it is only here and there that a man can be found wicked enough to think of executing it.

Pray, Mr. Justice, how is the community you speak of the better for any of these restraints? and where is the necessity of them? and how is safety strengthened or good order benefitted by them?

But these are only three out of this thousand.

47. Opportunity

BY JOHN J. INGALLS

Master of human destinies am I!
Fame, love, and fortune on my footsteps wait;
Cities and fields I walk: I penetrate
Deserts and seas remote, and passing by

[10]From *Truth against Ashurst,* in *Works of Jeremy Bentham,* V, 234 (1823).

Hovel and mart and palace, soon or late
I knock unbidden once at every gate!
If sleeping wake: if feasting rise before
I turn away. It is the hour of fate
And those who follow me reach every state
Mortals desire, and conquer every foe
Save death; but those who doubt or hesitate
Condemned to failure, penury, and woe
Seek me in vain and uselessly implore.
I answer not, and I return no more!

D. THE INTERPRETATION OF LAISSEZ-FAIRE

48. The Philosophy of Individualism[11]

BY ALBERT V. DICEY

Individualism as regards legislation is popularly connected with the name and the principles of Bentham. The ideas which underlie the Benthamite or individualistic scheme of reform may conveniently be summarized under three leading principles and two corollaries.

I. English law, as it existed at the end of the eighteenth century, had developed almost hap-hazard, as the result of customs or modes of thought which had prevailed at different periods. The laws had for the most part never been enacted. In order to amend the fabric of the law we must, so Bentham insisted, lay down a plan grounded on fixed principles. Legislation, in short, he proclaimed, is a science based on the characteristics of human nature, and the art of law-making, if it is to be successful, must be the application of legislative principles.

II. The right aim of legislation is the carrying out of the principle of utility, or, in other words, the proper end of every law is the promotion of the greatest happiness of the greatest number.

This principle is the formula with which popular memory has most closely connected the name of Bentham. Whatever objections this principle may be open to, one may with confidence assert that it is far more applicable to law than to morals, for at least two reasons: First, legislation deals with numbers and with whole classes of men; morality deals with individuals. It is obviously easier to determine what are the things which as a general rule promote the

[11]Adapted from *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century,* 125–149. Copyright by Macmillan & Co. (1905).

happiness of a large number of persons, than to form even a conjecture as to what may constitute the happiness of an individual. Let it be noted that the law aims not at positive happiness, but only at the creation of conditions under which it is likely that its subjects will prosper. Secondly, law is concerned primarily with external actions, and is only very indirectly concerned with motives. Morality, on the other hand, is primarily concerned with motives and feelings. But it is far easier to maintain that the principle of utility is the proper standard of right action than that it supplies the foundation on which rests the conviction of right or wrong.

Ideas of happiness, it has been objected, vary in different ages, countries, and among different classes; a legislator, therefore, gains no real guidance from the dogma that laws should aim at promoting the greatest happiness of the greatest number. To this objection there exists at least two answers. The first is that, even if the variability of men's conceptions of happiness be admitted, the concession proves no more than that the application of the principle of utility is conditioned by the ideas of human welfare which prevail at a given time in a given country. There is no reason why utilitarianism should refuse to accept this conclusion. Different laws may promote the happiness of different people. The second reply is that, as regards the conditions of public prosperity, the citizens of civilized states have, in modern times, reached a large amount of agreement. For instance, who can seriously doubt that a plentiful supply of cheap food, efficient legal protection against violence and fraud, and the freedom of all classes from excessive labor conduce to the public welfare? What man out of Bedlam ever dreamed of a country the happier for pestilence, famine and war? Laws deal with very ordinary matters, and deal with them in a rough and ready manner. The character, therefore, of a law, may well be tested by the rough criterion embodied in the doctrine of utility.

There still exists, however, an objection that must be examined with care. Bentham and his disciples have displayed a tendency to underestimate the diversity between human beings. They have too easily accepted the notion of uniformity in ideas of happiness in different countries and different ages. This supposition has facilitated legislation, but it has led to the feeling that laws which in the ninteenth century promoted the happiness of Englishmen, must at all times promote the happiness of the inhabitants of all countries.

The foundation then of legislative utilitarianism is the combination of two convictions. The one is the belief that the end of human existence is the attainment of happiness; the other is the

assurance that legislation is a science and that the aim of laws is the promotion of human happiness.

III. Every person is in the main and as a general rule the best judge of his own happiness. Hence legislation should aim at the removal of all those restrictions on the free action of an individual which are not necessary for securing the like freedom on the part of his neighbors.

This dogma of laissez faire is not from a logical point of view an essential article of the utilitarian creed. A benevolent despot might enforce upon his people laws which, though they might diminish individual liberty, were likely, nevertheless, to ensure the well-being of his people. Yet laissez-faire was practically the most vital part of Bentham's doctrine. Bentham perceived that under a system of ancient customs modified by hap-hazard legislation, unnumbered restraints were placed on the actions of individuals, which were in no sense necessary for the safety and good order of the community at large, and he inferred at once that these restraints were evils. Consequently we have from him the eulogy of laissez-faire. But with him and his disciples it was a totally different thing from easy acquiescence in the existing conditions of life. It was a war-cry. It sounded the attack upon every restriction, not justifiable by some definite and assignable reason of utility.

From these three guiding principles of legislative utilitarianism—the scientific character of sound legislation, the principle of utility, faith in laissez-faire—English individualists have in practice deduced the two corollaries: that the law ought to extend to the sphere and enforce the obligation of contracts; and that, as regards the possession of political power, every man ought to count for one and no man count for more than one. Each of these ideas has been constantly entertained by men who have never reduced it to a formula or carried it out to its full logical result; each of these two ideas has profoundly influenced modern legislation.

49. The Individualistic Theory of Government[12]

BY JOHN STUART MILL

We have now reached the question to what objects governmental intervention in the affairs of society may or should extend. The supporters of interference have been content with asserting a general right and duty on the part of government to intervene, wherever its intervention would be useful; and when those who have

[12]Adapted from *Principles of Political Economy,* Book v, chap. xi (1848).

been called the laissez-faire school have attempted any definite limitation of the province of government, they have usually restricted it to the protection of person and property against force and fraud; a definition to which neither they nor any one else can deliberately adhere, since it excludes some of the most indispensable and unanimously recognized of the duties of government.

Whatever theory we adopt respecting the foundation of the social union, and under whatever political institutions we live, there is a circle around every individual human being, which no government, be it that of one, or a few, or of the many, ought to be permitted to overstep: there is a part of the life of every person who has come to years of discretion, within which the individuality of that person ought to reign uncontrolled either by any other individual or by the public collectively. That there is, or ought to be, some space in human existence thus entrenched around, and sacred from authoritative intrusion, no one who professes the smallest regard to human freedom or dignity will call in question.

Even in those portions of conduct which do affect the interest of others, the *onus* of making out a case always lies on the defenders of legal prohibitions. It is not a merely constructive or presumptive injury to others, which will justify the interference of law with individual freedom. To be prevented from doing what one is inclined to, or from acting according to one's own judgment of what is desirable, is not only always irksome, but always tends to starve the development of some portion of the bodily or mental faculties, either sensitive or active; and unless the conscience of the individual goes freely with the legal restraint, it partakes, either in a great or in a small degree, of the degradation of slavery.

A second general objection to government agency is that every increase of the functions developing on the government is an increase of its power, both in the form of authority, and still more, in the indirect form of influence. The public collectively is abundantly ready to impose, not only its generally narrow views of its interests, but its abstract opinions, and even its tastes, as laws binding upon individuals. And the present civilization tends so strongly to make the power of persons acting in masses the only substantial power in society, that there never was more necessity for surrounding individual independence of thought, speech, and conduct, with the most powerful defences. Hence it is no less important in a democratic than in any other government, that all tendency on the part of public authorities to stretch their interference should be regarded with unremitting jealousy.

A third general objection to government agency rests on the principle of the division of labour. Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties. A natural consequence is that most things are ill done; much not done at all, because the government is not able to do it without delays which are fatal to its purpose.

I have reserved for the last place one of the strongest of the reasons against the extension of government agency. Even if the government could comprehend within itself, in each department, all the most eminent intellectual capacity and active talent of the nation, it would not be the less desirable that the conduct of a large portion of the affairs of society should be left in the hands of the persons immediately interested in them. A people among whom there is no habit of spontaneous action for a collective interest who look habitually to their government to command or prompt them in all matters of joint concern have their faculties only half developed; their education is defective in one of its most important branches. There cannot be a combination of circumstances more dangerous to human welfare than that in which intelligence and talent are maintained at a high standard within a governing corporation, but starved and discouraged outside the pale. Few will dispute the more than sufficiency of these reasons, to throw, in every instance, the burden of making out a strong case, not on those who resist, but on those who recommend government interference. Laissez-faire, in short, should be the general practice; every departure from it, unless required by some great good, is a certain evil.

But we must now turn to the second part of our task, and direct our attention to cases, in which some of those general objections are altogether absent, while those which can never be got rid of entirely are overruled by counter-considerations of still greater importance.

Can it be affirmed, for instance, that the consumer is the most competent judge of the end? Is the buyer always qualified to judge of the commodity? The proposition can be admitted only with numerous abatements and exceptions. This is peculiarly true of those things which are chiefly useful as tending to raise the character of human beings. The uncultivated cannot be competent judges of cultivation. Those who most need to be made wiser and better usually desire it least, and if they desired it, would be incapable of finding the way to it by their own lights. In the matter of education, the intervention of government is justifiable, because the case is not one in which the interest and judgment of the consumer are a sufficient security for the goodness of the commodity. Let us now

consider other cases, where, for one reason or another, governmental interference is necessary. These may be classed under several heads.

First, the individual who is presumed to be the best judge of his own interests may be incapable of judging or acting for himself; may be a lunatic, an idiot, an infant; or, though not wholly incapable, may be of immature years and judgment. In this case the foundation of the laissez-faire principle breaks down entirely. The person most interested is not the best judge of the matter, nor a competent judge at all. To take an example from the peculiar province of political economy; it is right that children, and young persons not yet arrived at maturity, should be protected, so far as the eye and hand of the state can reach, from being over-worked. Freedom of contract, in the case of children, is but another word for freedom of coercion. Education also is not a thing which parents or relatives should have it in their power to withhold.

But the classing together, for this and other purposes, of women and children, appears to me both indefensible in principle and mischievous in practice. Children below a certain age cannot judge or act for themselves, but women are as capable as men of appreciating and managing their own concerns, and the only hindrance to their doing so arises from the injustice of their present social position. If women had as absolute a control as men have over their own persons and their own patrimony or acquisitions, there would be no plea for limiting their hours of labouring for themselves, in order that they might have time to labour for the husband, in what is called *his* home. Women employed in factories are the only women in the labouring rank of life whose position is not that of slaves and drudges.

A second exception is when an individual attempts to decide irrevocably now what will be best for his interest at some future and distant time. The practical maxim of leaving contracts free is not applicable without great limitations in case of engagements in perpetuity; and the law should be extremely jealous of such engagements.

The third exception which I shall notice has reference to the great class of cases in which the individuals can only manage the concern by delegated agency, and in which the so-called private management is, in point of fact, hardly better entitled to be called management by the persons interested, than administration by a public officer. Whatever, if left to spontaneous agency, can only be done by joint stock associations, will often be as well, and sometimes better done, as far as the actual work is concerned, by the state. Government management is, indeed, proverbially jobbing, careless, and

ineffective, but so likewise has generally been joint-stock management.

To a fourth cause of exception I must request particular attention, it being one to which, as it appears to me, the attention of political economists has not yet been sufficiently drawn. There are matters in which the interference of law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment; they being unable to give effect to it except by concert, which concert again cannot be effectual unless it receives validity and sanction from the law. For illustration I may advert to the question of diminishing the hours of labour. Let us suppose that a general reduction of the hours of factory labour, say from ten to nine, would be for the advantage of the work people; that they would receive as high wages, or nearly as high, for nine hours' labour as they receive for ten. If this would be the result, and if the operatives generally are convinced that it would, the limitation, some may say, will be adopted spontaneously. I answer, that it will not be adopted unless the body of operatives bind themselves to one another to abide by it. For however beneficial the observance of the regulation might be to the class collectively, the immediate interest of every individual would lie in violating it: and the more numerous those were who adhered to the rule, the more would individuals gain by departing from it.

Fifthly: the argument against government interference cannot apply to the very large class of cases, in which those acts of individuals with which the government claims to interfere, are not done by those individuals for their own interest, but for the interest of other people. This includes, among other things, the important and much agitated subject of public charity. Though individuals should, in general, be left to do for themselves whatever it can reasonably be expected that they should be capable of doing, yet when they are at any rate not to be left to themselves, but to be helped by other people, the queston arises whether it is better that they should receive this help exclusively from individuals, and therefore uncertainly and casually, or by systematic arrangements, in which society acts through its organ, the state. Other cases, falling within the same general principle, are those in which the acts done by individuals, though intended solely for their own benefit, involve consequences extending indefinitely beyond them, to interests of the nation or of posterity, for which society in its collective capacity is alone able, and alone bound, to provide.

The same principle extends also to a variety of cases, in which important public services are to be performed, while yet there is no

individual specially interested in performing them, nor would any adequate remuneration naturally or spontaneously attend their performance. Take for instance a voyage of geographical or scientific exploration. It may be said, generally, that anything which it is desirable should be done for the general interests of mankind or of future generations, or for the present interests of those members of the community who require external aid, but which is not of a nature to remunerate individuals or associations for undertaking it, is in itself a suitable thing to be undertaken by government.

The preceding heads comprise, to the best of my judgment, the whole of the exceptions to the practical maxim that the business of society can be best performed by private and voluntary agency. It is, however, necessary to add, that the intervention of government cannot always practically stop short at the limit which defines the cases intrinsically suitable for it. In the particular circumstances of a given age or nation, there is scarcely any thing, really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself. Even in the best state which society has yet reached it is lamentable to think how great a proportion of all the efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against injury, to be turned to the legitimate employment of the human faculties, that of compelling the powers of nature to be more and more subservient to physical and moral good.

50. The Authoritative Basis of Laissez-Faire

There is nothing novel in the assertion that deference to authority is the most persistent and fundamental of the many aspects of the intellectual attitude, laissez-faire. True it is that the expression carries the idea of an industrial regime going its way, untrammeled by state interference. In fact its most obvious meaning seems to be a policy under which the individual shall be legally free to select his own occupation, choose his own business associates, employ an industrial technique and organization which is to his own liking, and buy his materials and labor and market his wares on terms voluntarily made. Thus it means freedom for the individual in the immediate conduct of his business and the sale of his wares.

But it does not totally exclude authority. Many advocates of laissez-faire see nothing amiss in governmental grants of public

lands, subsidies, patents, or franchises. Many would permit the state to levy customs duties intended to check importations, raise prices, and increase the number of those engaged in protected industries. All would allow the state to encourage commerce by improving transportation and credit facilities. It is perhaps not an overstatement to say that the advocate of laissez-faire regards as interference, not all political activity affecting industry, but only such as adversely affects business interests.

Instances such as the above, however, are only passing phases of the situation. Penetrating and conditioning industrial activity at every point there is a tangled web of legal, political and social institutions. Among the legal institutions are the prohibition of physical violence in industrial activity, a recognition of private property rights, machinery for compelling the discharge of obligations voluntarily assumed, and prescribed forms for partnerships and corporations. Among the social institutions are a system of intangible and immaterial property rights, the manifestations of public and class opinion, a code of business ethics, and a system of collective action and the recognition of collective authority in individual industrial establishments. Upon these the advocate of laissez-faire of necessity takes an attitude. Since these institutions change slowly and are conceived of as indispensible, they have generally been regarded by the business man as a part of the unchangeable nature of things. Therefore laissez-faire formally says nothing about them. Yet its very silence is the best evidence of its unqualified approval of habitual legal and social institutions and its demand that the individual he hedged about with conventional authority.

Not only is the province from which authority is excluded a narrow one, but even in that province laissez-faire is conceived of as a mere means for securing some desirable social end. Neither theorist nor layman, in formulating his reasons for supporting this policy, declares himself in favor of a purely acquisitive system, wherein the strong shall wax stronger at the expense of the weak. By the older school, whose aspirations for society were democratic, it was argued that the competitive struggle, under laissez-faire, resulted in the greatest good, not only to the highly successful few, but to every member of the social community. By the newer school the basis of whose theories is biological, and whose ideal is aristocratic, its justification is found in the elimination of the unfit, the perpetuation of the fit, and the tendency of society towards a higher cultural level. By some of the latter charity is strongly condemned, not because it strips the fit of some of the

earnings which the industrial struggle has brought him, but because the survival of dependants tends to lower the prevailing type of civilization. Into the merits of these theories this is not the place to go. Here it is enough to note that even its most extreme advocates do not conceive of laissez-faire as a theory of predation, nor seek to justify it by any benefits, however great, which it may confer on the individual. On the contrary, over and above him, a conscious social end is set up, to the realization of which his activities must tend, and in view of which the policy itself is to be approved or condemned.

51. The Unscientific Character of Laissez-Faire[13]

BY J. E. CAIRNES

Political Economy has to do with wealth. But what is the problem concerning wealth which it undertakes to solve? I think the prevailing notion is that it undertakes to show that wealth may be most rapidly increased and most fairly distributed, by the simple process of leaving people to follow the promptings of self-interest unrestrained either by the State or by public opinion. That is the doctrine of laissez-faire. I shall endeavor to show that the maxim of laissez-faire has no scientific basis whatever, but is at best a mere handy rule of practice.

If the doctrine of laissez-faire is to be taken as a scientific principle, its implied assertion is this: that, taking human beings as they are, in their intellectual and physical surroundings, and accepting the institution of private property as commonly understood, the promptings of self-interest will lead individuals, in all that range of their conduct which has to do with their material wellbeing, spontaneously to follow that course which is most for their own good and for the good of all. You will at once see that it involves the two following assumptions: first, that the interests of individuals are fundamentally the same, secondly, that individuals know their interests in the sense in which they are coincident with the interests of others, and that, in the absence of coercion, they will in this sense follow them. If these two propositions be made out, the policy of laissez-faire follows with scientific rigour.

But can they be made out? For my part I am disposed to accept the first one, that human interests, well understood, are fundamentally at one. But how as to this assumption that people know their interests in the sense in which they are identical with the interests

[13]Adapted from "Political Economy and Laissez-Faire," in *Essays in Political Economy,* 240–252 (1873).

of others, and that they spontaneously follow them in this sense? The advocates of laissez-faire usually argue that human interests are naturally harmonious; therefore we have only to leave people free, and social harmony will result; as if it were an obvious thing that people know their interests in the sense in which they coincide with the interests of others, and that knowing them, they must follow them, as if there were no such things in the world as passion, prejudice, custom, *esprit de corps,* class interest, to draw people aside from the pursuit of their interests in the largest and highest sense! Here is the fatal flaw on the very threshold of the argument. Nothing is easier than to show that people follow their interest, in the sense in which they understand their interest. But between following their interest in this sense and in the sense in which it is coincident with the interests of other people, a chasm yawns. That chasm in the argument of laissez-faire has never been bridged.

To come to the important point, what is it that people understand to be their interests? What did landlords, as a class, understand to be their interests down to 1846, when they maintained the Corn Laws as indispensable to their rents, and the prop of their political power? What do Irish landlords understand to be their interests when they are withheld only by fear of assassination from evicting their tenants to consolidate their estates? What did employers in former days understand to be their interests when they enacted statutes of laborers? Or, in more recent times, when a ten hours' act became necessary to protect women and children against the unscrupulous pursuit of gain? I ask if any one can seriously consider the state of things represented by these examples, and retain absolute confidence in his maxim of laissez-faire?

The truly significant circumstance is that the policy expressed by laissez-faire has been steadily progressive for nearly half a century, and yet we have no sign of mitigation in the harshest features of our social state. Those ugly social features, those violent contrasts of poverty and wealth, that strike so unpleasantly the eye of every foreign observer in this country, are still painfully prominent. In a word, "the grand final result, the indefinite approximation of all classes towards a level which is always rising," seems as yet scarcely nearer. This seems to me to abate our confidence in laissez-faire as the panacea for industrial ills.

There is no evidence to warrant the assumption that lies at the root of this doctrine. Human beings follow their interests according to their delights and dispositions; but not necessarily in that sense in which the interest of the individual is coincident with that of others or of the whole. It follows that there is no security that the

economic phenomena of society will always arrange themselves spontaneously in the way that is most for the common good. In other words laissez-faire falls to the ground as a scientific doctrine. At best it is a practical rule and not a doctrine of science. Like most other practical rules, it is open to numerous exceptions. Above all, it must never for a moment be allowed to stand in the way of the candid consideration of any promising proposal of social or industrial reform.

E. THE PROTEST AGAINST INDIVIDUALISM

52. The Tyranny of the Machine[14]

BY JOSEPH HARDING UNDERWOOD

The modern "tripods of Hephaestus"—the spinning jenny, the mule, the loom—instead of serving as allies to human hands, speedily became masters of "hands." The undemocratic idea prevailed—laissez-faire, let me do as I please—"me" being a man with a hundred hands, which speedily became a thousand. The use of men, women, and children by factory-owners at the beginning of the nineteenth century had all the advantages and none of the disadvantages of slave ownership. Starvation brought the wives and daughters of the workmen to the factories and, since only their labor and not their strength had to be bought, there was no waste in wearing them out. Half-naked women were harnessed to draw carts in the mines through passages two feet seven inches high; children of seven worked twelve to fourteen hours a day in factories. There were regular traffickers in children of paupers. "In stench, in heated rooms, amidst the constant whirring of a thousand wheels, little fingers and little feet were kept in constant action, forced into unnatural activity by blows from the heavy hands and feet of the merciless overlooker and the infliction of bodily pain by instruments of punishment, invented by the sharpened ingenuity of insatiable selfishness."[15] They were fed the same food that the master gave his pigs. Irons were riveted to the ankles and chained to the hips of girls and women to keep them from running away. The suicides, the murdered, and the tired were buried secretly. No such cruelty was ever widespread under slavery. It would not pay.

[14]Adapted from *The Distribution of Ownership,* 52–53 (1907).

[15]Gibbins, *Industry in England,* 389.

53. The Passing of the Frontier

BY THOMAS B. MACAULAY[16]

Despots plunder their subjects, though history tells them that, by prematurely exacting the means of profusion, they are in fact devouring the seed-corn from which the future harvest is to spring. Why, then, should we suppose that people will be deterred from procuring immediate relief and enjoyment by the fear of calamities that may not be fully felt till the times of their grandchildren?

The case of the United States is not in point. In a country where the necessities of life are cheap and the wages of labor high, where a man who has no capital but his legs and arms may expect to become rich by industry and frugality, it is not very decidedly even for the immediate advantage of the poor to plunder the rich. But in countries where the great majority live from hand to mouth, and in which vast masses of wealth have been accumulated by a comparatively small number, the case is widely different. The immediate want is at particular seasons imperious, irresistible. In our own time it has steeled men to the fear of the gallows, and urged them on to the point of the bayonet. And, if these men had at their command that gallows, and those bayonets which now scarcely restrain them, what is to be expected? The better the government, the greater is the inequality of conditions; and the greater the inequality of conditions, the stronger are the motives which impel the populace to spoliation. As for America, we appeal to the twentieth century.

BY JAMES BRYCE[17]

America, in her swift, onward progress, sees, looming on the horizon, and now no longer distant, a time of mists and shadows, wherein dangers may be concealed whose form and magnitude she can scarcely yet conjecture. As she fills up her western regions with inhabitants, she sees the time approach when all the best land will have been occupied, and when the land under cultivation will have been so far exhausted as to yield scantier crops even to more extensive culture. Although transportation may also then have become cheaper, the price of food will rise; farms will be less easily obtained and will need more capital to work them with profit; the struggle for existence will become more severe. And while the outlet which the West now provides for the overflow of the great cities will have become less available, the cities will have become immensely

[16]Adapted from the essay on *Mill on Government* (1828).

[17]Adapted from *The American Commonwealth,* 1st ed., III, 662 (1888).

more populous; pauperism, now confined to six or seven of the greatest, will be more widely spread; wages will probably sink and work will be less abundant. In fact, the chronic evils and problems of the old societies and crowded countries, such as we see them in Europe today, will have reappeared on this new soil.

BY PETER FINLEY DUNNE

"Opporchunity," says Mr. Dooley, "knocks at iv'ry man's dure wanst. On some men's dures it hammers till it breaks down th' dure, an' then it goes in an' wakes him up if he's asleep, an' afterwards it worrucks f'r him as a nightwatchman. On some men's dures it knocks an' runs away, an' on th' dures iv some men it knocks an' whin they come out it hits thim over th' head with an axe. But iv'ry wan has an opporchunity."

54. The New Issues[18]

BY WILLIAM GARROTT BROWN

The twentieth century is upon us. Americans are beginning to find themselves confronted with the questions which have already long beset older and more crowded countries. We can hardly doubt that certain new public issues which within the last two or three years have come very swiftly to the front have come to stay. We are not yet an old society, or a crowded country. But—the frontier is gone. We are in the situation of a man who, though still very young, has nevertheless reached maturity and come into full possession of his estate; of an estate vast, but yet of a vastness no longer incalculable, no longer uncalculated, and which is also appreciably impaired by the waste and extravagance of his youth.

We face, therefore, the responsibility of maturity, of a more careful development and husbandry of our great demesne. The time of boundless anticipation is past. We have instead a sure sense of strength, but with it comes also at last the sense that even our strength, and our capacity for growth, have their limits. There is as yet no real pinch, no severe pressure or congestion; far from it. But the certainty that these things are in the future is at last borne in upon us by facts and warnings. That is enough to change our mood. We are taking up, and ought to be taking up, certain of the problems of "old societies and crowded countries," and the coming of these new problems has somewhat changed the aspect of certain others which, even with us, are old.

[18]Adapted from *The New Politics and Other Papers*, 6–28. Copyright by Eugene L. Brown. Published by Houghton, Mifflin & Co. (1914).

The new issues all have this much in common: They are all at bottom economic, and economic in a very strict derivative sense of the word—all questions of national housekeeping, of the safeguarding, the development, and the distribution of our immense national inheritance. The rapid and revolutionary development of transportation has transformed bewilderingly the entire field with which economic legislation must deal. It is not merely that we are approaching the problems of older societies. These problems have taken on for us new aspects, aspects hardly known elsewhere, and a truly American vastness of range. We can and should profit by a close study of European experience. But the guidance we can get from older countries, however valuable, is limited. There are things which we must work out for ourselves; for the new industry is much farther advanced with us, and much more firmly established, than with the older peoples.

The particular new issue on which we can get the most guidance from Europe, and which is therefore the simplest of all, is that of conservation. To call that issue a question would be a misnomer. The only question should be of ways and means, and concerning these it will be some time before we exhaust the enlightenment to be got from European experience. In the matter of the national conservation of the use of water-power, we have in the example of Switzerland an admirable object-lesson.

Concerning this there is hardly a question; but there is an issue; there is a conflict, a struggle; and the violence and magnitude and difficulty of it are greater than anywhere else in the world. That is so because nowhere else are private interests so well organized or so powerful, and nowhere else have they such opportunities to acquire control of the various means of wealth. There is thus an issue between the permanent public weal and the selfishness of individuals and groups. For there has come about a massing of great and little accumulations, and an organization of capital and industry under a few heads; so that the struggle is on behalf of the people against the combinations. To take an instance, the lumber kings were not slow to see how rapidly the country was being deforested. They looked ahead and bought timber lands everywhere. And it can hardly be questioned that, law and usage remaining what they are, the same forces which have made for monopoly and against competition in other things will monopolize the country's water-power as well.

The swift and universal rise in prices should serve to awaken us to the actual state of industry and exchange among us. Our awakening to the necessity of economy is still but a part of the greater awakening to the true extent of the changes which have come about in our industrial life. The field is so vast that only a superficial glance at the main features of the new order is here possible.

The most striking and important fact—a fact which is in a way inclusive of the whole matter—is this: Competition, as we have known it in the past, the kind of competition on whose existence and continuance our law and usage concerning industry and property are largely based, is breaking down. Take any one of the dozens of articles in general consumption, and thorough investigation will very likely disclose that real and vital competition no longer prevails in its production or distribution. A combination of manufacturers makes it, a combination of common carriers fixes the charges of transporting it to market, and the original combination names the terms upon which the retail dealers may handle it. If investigations in prices go far enough I am sure they will also disclose such combinations in the smaller communities as well. The dependence of the ordinary shopkeepers on the trusts for supplies is so widespread that the old law of competition has been in large measure nullified. The consumers, in fact, seem to be the only industrial group which has so far failed to combine. It is impossible not to feel that the tendency is so universal as to mean unmistakably a new industrial order.

What does this change mean for the individual as a part and member, an industrial unit, of the new order? Clearly, it means, and it must continue to mean until the system is somewhat modified in his interests, less independence, a narrower range of opportunity. There is no reason to believe that it means on the whole less comfort or a lowered standard of living. The contrary is more probably true. Neither does the change mean that the man of ability and ambition cannot rise. He can. A policy of promotions for merit is plainly to the interest of every great business. That great combinations have adopted that policy is the principal reason why they are so well served. But these things do not rid us of the fact that the coming of the new order has meant a loss of independence, of industrial freedom to the great mass of individuals. Their chance to rise is but one way—by obedience to the laws of the system to which they belong; and in the making of these laws they have no

voice. There is real independence only at the top; and to reach the top is beyond the hopes of all but a very few. Clearly the new system is less democratic than the old.

But to get a fuller conception of the change, we must go to the source of initiative and control in business, to the men who direct the capital of the country. For the principle of combination has made it possible for a few great capitalists to get control of the accumulated savings of hundreds of thousands of people of small means. A single great banking concern is charged with the direction of some six billion dollars variously invested, in manufacturing, in banking, in transportation, in mines, in many other ways. Such power could go far to corrupt the press. Less power has already corrupted legislatures; has suborned executives; has reached even the courts.

Here is but the merest glance at the new conditions. But it may, I think, be sufficient to enable us to formulate the new issues. We are confronted with adapting the democratic principle to conditions that did not exist when American democracy arose: that is to say, to a field no longer unlimited, to opportunities no longer boundless, and to an industrial order in which competition is no longer the controlling principle, an industrial order which is, therefore, no longer democratic, but increasingly oligarchical. To save itself politically, democracy must therefore extend itself into this field. Plainly, therefore, laissez-faire can no longer be its watchword. That was the watchword of the régime of competition. Democracy's task is twofold. It must secure for the people some kind of effective, ultimate control over the natural sources of all wealth; and it must also secure, in an industrial system, no longer controlled by competition, protection and opportunity for the individual.

The ancient warfare of democracy and privilege must be begun all over again, and with new tactics, new strategy. In the presence of the new issues many of the old issues will be altered. The old struggle over the tariff will be less a matter of sectional issues, less a matter of contrary economic theories, and more a phase of the great struggle between democracy and privilege. The old constitutional questions, thought forever settled, will reappear in new forms. The rights and powers of both the states and the nation must be scrutinized afresh. Before the end we may have to go still farther back and find for the common law itself, if not new principles, at any rate, new formulas. For I doubt if we shall end before we have revised many of what we thought our fundamental conceptions of property and of human rights.

F. THE THEORY AND PROGRAM OF SOCIAL CONTROL

55. The Individualistic Basis of Social Control[19]

BY THOMAS HILL GREEN

Freedom is valuable only as a means to an end. That end is the liberation of the powers of all men equally for contributions to a common good. No one has a right to do what he will with his own in such a way as to contravene that end. It is only through the guaranty society gives him that he has property at all. This guaranty is founded on a sense of common interests. Everyone has an interest in securing to everyone else the free use and enjoyment and disposal of his possessions, because such freedom contributes to that equal development of the faculties of all which is the highest good for all. This is the true and only justification of the rights of property. Property being only justifiable as a means to the free exercise of the social capabilities of all, there can be no true right of property of a kind which debars one class of men from such free exercise altogether. We condemn slavery no less when it rises out of voluntary agreement on the part of the enslaved person. A contract by which anyone agreed for a certain consideration to become the slave of another person we would reckon a void contract. Here, then, is a limitation upon freedom of contract that we all recognize as rightful. No contract is valid in which human persons are dealt with as commodities, because such contracts of necessity defeat the end for which alone society enforces contracts at all.

Are there no other contracts which, less obviously perhaps, but really, are open to the same objection? Let us consider contracts affecting labor. Labor, the economist tells us, is a commodity exchangeable like other commodities. This is in a certain sense true, but it is a commodity which attaches in a peculiar manner to the person of man. Hence restrictions may need to be placed on its sale which would be unnecessary in other cases, to prevent it from being sold under conditions which make it impossible for the person selling it ever to become a free contributor to social good in any form. This is most plainly the case where a man bargains to work under conditions fatal to health. Every injury to the health of the individual is, so far as it goes, a public injury. It is an impediment to the general freedom; so much deduction from our power, as members of society, to make the best of ourselves. Society, therefore,

[19]Adapted from the "Lecture on Liberal Legislation and Freedom of Contract," in *Works,* III, 372–386. Edited by R. L. Nettleship (1880).

is plainly in its right when it limits freedom of contract for the sale of labor, so far as is done by laws for the sanitation of factories and mines.

It is equally within its right in prohibiting the labor of women and young persons beyond certain hours. If they work beyond these hours, the result is demonstrably physical deterioration, which carries with it a lowering of the moral forces of society. For the sake of the general freedom of its members to make the best of themselves, which it is the object of civil society to secure, a prohibition should be put on all such contracts of service as in a general way yield such a result. The purchase and hire of unwholesome dwellings are properly forbidden on the same principle.

Its application to compulsory education may not be quite so obvious, but it will appear on a little reflection. Without a command of certain elementary arts and knowledge, the individual in modern society is as effectually crippled as by the loss of a limb or a broken constitution. With a view to securing freedom among its members it is certainly within the province of the state to prevent children from growing up in that kind of ignorance which practically excludes them from a free career in life.

Just as labor, though an exchangeable commodity, differs from all other commodities, land, too, has its characteristics, which distinguish it from ordinary commodities. It is from the land that the raw material of all wealth is obtained. It is only upon the land that we can live; only across the land that we can move from place to place. The state, therefore, in the interest of that public freedom which it is its business to maintain, cannot allow the individual to deal as he likes with his land to the same extent to which it allows him to deal with other commodities. It is an established principle that the sale of land should be enforced by law when public convenience requires it. The landowner of course gets the full value of the land which he is compelled to sell, but of no other ordinary commodity is the sale thus enforced. This illustrates the peculiar necessity in the public interest of putting some restrictions on a man's liberty of doing what he will with his own. The question is whether, in the same interest, further restraint does not need to be imposed on the liberty of the landowner. Should not the state for public purposes prevent the land from being tied up in a manner which prevents its natural distribution and keeps it in the hands of those who cannot make the most of it? It is so settled that at present all the land necessarily goes to the owner's eldest son. The evil effects of this system are twofold. It almost entirely prevents the sale of agricultural land in small quantities, and thus hinders that

mainstay of social order, a class of small proprietors tilling their own land. It also keeps large quantities of land in the hands of men who are too much burdened by debts to improve it. The landlord in such cases has not the money to improve, the tenant has not the security which would justify him in improving. On the simple and recognized principle that no man's land is his own for purposes incompatible with the public convenience, we ask that legal sanction should be withheld from settlements which interfere with the distribution and improvement of land.

To uphold the sanctity of contracts is doubtless a prime business of government, but it is no less its business to provide against contracts being made, which, from the helplessness of one of the parties to them, instead of being a security for freedom, becomes an instrument of disguised oppression. Men are not at liberty to buy and sell when they will, where they will, and as they will. There is no right to freedom in the sale or purchase of a particular commodity, if the general result of allowing such freedom is to detract from freedom in the higher sense, from the general power of men to make the best of themselves. The danger of legislation, either in the interests of a particular class or for the promotion of particular religious opinions, we may fairly assume to be over. The popular jealousy of law is out of date.

56. Social Reform and Self-Reliance[20]

BY W. LYON BLEASE

The philosophical argument against Social Reform which has most weight is that by helping individuals the State deprives them of the disposition to help themselves, and they tend to rely more and more upon the social organization and less and less upon themselves. Everything in the way of public assistance is thus regarded with suspicion. To feed school-children is to weaken parental responsibility. To raise wages by legislation is as demoralizing as to distribute doles. To offer a pension of five shillings a week in old age is to discourage thrift in youth. It is therefore better in the end that poverty should be allowed to run its course than that a misdirected benevolence should demoralize the people. This argument, reproducing the logical individualism of the Utilitarians, has been greatly strengthened by Darwinism. Herbert Spencer has thus applied the theory of evolution to political affairs. "The well-being of existing humanity, and the unfolding of it into ultimate perfection,

[20]Adapted from *A Short History of English Liberalism*, 327–341. Copyright by T. Fisher Unwin (1912).

are both secured through the same benificent, though severe, discipline to which the animate creation at large is subject; a felicity-pursuing law which never swerves for the avoidance of partial and temporary suffering. The poverty of the incapable, the distresses that come upon the imprudent, the starvation of the idle, and those shoulderings aside of the weak by the strong, which leave so many in shallows and in miseries, are the decree of a large, far-seeing benevolence."

Yet, if there is one thing that most distinguishes modern from ancient society, and society of any kind from the disorganized existence of primitive man, it is the prevalence of the idea that we are, in some measure, responsible for the condition of our neighbors. It would be at least surprising that the salvation of the race should now be found to lie in a deliberate reaction, against the movement of countless ages, towards the state of undisciplined human egotism. A doctrine so repugnant to what we have been accustomed to regard as our better feelings requires little examination to discover its fallacies.

The evolutionary argument against Social Reform falls to the ground when it is once admitted that the individuals in contemplation are individuals organized in society, and that it is only so long as they are organized that development, as we understand it, can take place. If mankind were left to scramble for such good things as it could get without coöperation, the race would no doubt, in course of time, develop such characteristics as that competition would allow to survive. But if we erect higher standards, and require, even from selfish motives, the moral, intellectual, and physical benefits which only organization, culture, and the communication of ideas will produce, the comparison between human beings and the rest of the animate creation is useless for our purpose. Some limitation of the struggle for existence is obviously needed, if we are not to fall back to the level where only the brute qualities of strength, swiftness, and cunning are of value. Once we admit the need of a social organization, which involves a very considerable check on mechanical evolution by the survival of the fittest, the only controversy is about the extent and character of the limits on competition and not about their existence.

But the argument for Social Reform is not based only upon the possibility of altering environment so that individuals who are unfit for it may maintain themselves as long as they live. It is not the incapable who are poor. It is not only the imprudent who are overcome by distress. It is not only the idle who starve. Bad conditions of life destroy not only the inefficient, but the efficient. He is a

very dull and stupid observer who supposes that all the slovenly, debauched, and criminal men and women whom he sees around him are what they are because of their innate qualities. A bad environment does not merely destroy the inefficient, it manufactures them; and it is as reasonable to oppose social reform because it prevents the elimination of the unfit, as it would be to defend excessive eating and drinking, or sitting in wet clothes. Unhealthy eating would no doubt destroy people with weak stomachs, but for every one who perished in this struggle with environment there would be ten who survived. Bad housing and bad wages produce the same results as bad habits. An ill-fed girl becomes the mother of weakly children. Casual labor kills only after it has given birth to an incalculable amount of laziness, vice, and mental disorder. The elimination of the unfit is uncertain and capricious. The deterioration of the fit is certain and remorseless. Reform is thus the only possible means for discovering what individuals are fit in the human sense. It is only when all have a chance of survival that we can distinguish between efficient and inefficient. The reformer is only evolution conscious of itself.

This elaboration of social control is not inconsistent with such competition as is necessary for the development of character, and for the production of the wealth which is distributed among the members of society. It is not Socialism. It removes only some of the risks of failure, and only those which are beyond individual control. No man is made less thrifty because at the age of seventy he will receive five shillings a week. No man works the better for knowing that, if he is ever ill for a month, he and his family will never be free again, or will work the worse for knowing that his home will be kept together until he is able once more to support it by his own exertions. No woman gets any virtue out of working fifteen hours a day for seven days a week, with the knowledge that even then she will not earn enough to keep herself in food and clothing without recourse to charity or prostitution, and her character will not be deteriorated when a level is fixed below which her wages cannot fall. The benefit of competition remains. The disasters inevitably attendant on it are averted. The poorer people no longer wrestle on the brink of an unfenced precipice.

We do not want to see impaired the vigor of competition, but we can do much to mitigate the consequences of failure. We want to draw a line below which we will not allow persons to live and labor. We want to have free competition upward. We do not want to pull down the structures of science and civilization; but to spread a net over an abyss. Our aim is not to abolish competition. Competition

will always be powerful enough. But to limit the strife—to fix a ring around the prize-fight—to protect the vital parts from the blows of the combatants. Individual growth can only take place in competition. But it is not necessary that failure in competition should be mortal. The struggle of competition is to go on. But it is not to go on to the death. Economic society is to be converted into a gigantic Trade Union, based upon the belief that the highest good of the individual can only be secured in coöperation with his fellows, and limiting his freedom only in so far as it is necessary to secure freedom to his associates.

57. Laissez-Faire in Practice[21]

BY L. T. HOBHOUSE

In the main, the teaching of the school tended to a restricted view of the function of government. Government had to maintain order, to restrain men from violence and fraud, to hold them secure in person and property against foreign and domestic enemies, that they might rely upon reaping where they had sown, and might enjoy the fruits of their industry.

The factory system early brought matters to a head at one point by the systematic employment of women and young children under conditions which outraged the public conscience when they became known. In the case of children it was admitted that the principle of free contract could not apply. It left the child to be exploited by the employer in his own interest. But this principle admitted of great extension. If the child was helpless, was the grown-up person, man or woman, in a much better position? Here was the owner of a mill employing five hundred hands. Here was an operative possessed of no alternative means of subsistence seeking employment. Suppose them to bargain as to terms. If the bargain failed the employer lost one man. At worst he might have a little difficulty for a day or two in working a single machine. During the same days the operative might have nothing to eat, and might see his children going hungry. Where was the effective liberty in such an arrangement? In the matter of contract true freedom postulates substantial equality between the parties. In proportion as one party is in a position of advantage he is able to dictate the terms. In proportion as the other party is in a weak position, he must accept unfavorable terms. Hence the truth of Walker's dictum that economic injuries tend to perpetuate them-

[21]Adapted from *Liberalism*, 81–101. Copyright by Henry Holt & Co. (1911).

selves. For purposes of legislation the state began with the child, where the case was overwhelming. It went on to include the young person and the woman. It drew the line at the adult male, and it is only within our own time that legislation has avowedly undertaken the task of controlling the conditions of industry. To this it has been driven by the manifest teachings of experience that liberty without equality is a name of noble sound and squalid result.

In place of the system of unfettered agreement contemplated, the industrial system which has actually grown up and is in process of further development rests on conditions prescribed by the state. The law provides for the safety of the worker and sanitary conditions of employment. It prescribes the length of the working day for women and children. In the future it will probably deal freely with the hours for men. It makes employers liable for injuries suffered by operatives. Within these limits it allows freedom of contract.

The theory of laissez-faire asumed that the state would hold the ring. It would suppress force and fraud, keep property safe, and aid men in enforcing contracts. On these conditions men should be absolutely free to compete with each other, so that their best energies should be called forth. But why, on these conditions, just these, and no others? Why should the State insure protection of person and property? The time was when the strong man armed kept his goods, and incidentally his neighbor's goods too, if he could get hold of them. Why should the State intervene to do for a man that which his ancestors did for themselves? Why should a man who has been soundly beaten in physical fight go to a public authority for redress? How much more manly to fight his own battle. Was it not a kind of pauperization to make men secure in person and property, through no efforts of their own, by the agency of a state machinery operating over their heads? Would not a really consistent individualism abolish this machinery? "But," the advocate of laissez-faire may reply, "the use of force is criminal, and the state must suppress crime." So men held in the ninteenth century. But there was an earlier time when they did not take this view, but left it to individuals and their kinsfolk to revenge their own injuries. Was not this a time of more unrestrained individual liberty. On what principle then is the line drawn, so as to specify certain injuries which the State may prohibit and to mark off others which it must leave untouched?

Individualism as ordinarily understood, not only takes the policeman and the law court for granted. It also takes the rights of property for granted. But what is meant by the rights of property?

In ordinary use the phrase means just that system to which long usage has accustomed us. This is a system by which a man is free to acquire by any method of production or exchange, within the limits of the law, whatever he can of land, consumable goods, or capital; to dispose of it at his own will and pleasure for his own purposes, to destroy it if he likes, to give it away or sell it as it suits him, and at death to bequeath it to whomsoever he will. The State can take a part of a man's property by taxation. But in all taxation the State is taking something from a man which is "his," and in so doing is justified only by necessity. In many ways, in the face of actual conditions, the individualist has been driven to a change in property rights in the direction of greater social control. The school of Henry George, individualists though they be, would purge the social system of the private ownership of land. This alone, say they, will insure genuine freedom to all individuals.

Thus individualism, when it grapples with the facts, is driven no small distance towards state regulation. Once again we have found that to maintain individual freedom and equality we have to extend the sphere of social control. We cannot assume any of the rights of property as axiomatic. We must look at their actual workings and consider how they affect the life of society.

58. A Program of Social Reform[22]

BY WOODROW WILSON

We see that in many things our national life is very great. It it incomparably great in its material aspects, in its body of wealth, in the diversity and sweep of its energy, in the industries which have been conceived and built up by the genius of individual men and the limitless enterprises of groups of men.

It is great, also, very great, in its moral force. Nowhere else in the world have noble men and women exhibited in more striking forms the beauty and the energy of sympathy and helpfulness and counsel in their efforts to rectify wrong, alleviate suffering, and set the weak in the way of strength and hope.

We have built up, moreover, a great system of government, which has stood through a long age as in many respects a model for those who seek to set liberty upon foundations that will endure against fortuitous change, against storm and accident. Our life contains every great thing, and contains it in rich abundance.

But the evil has come with the good, and much of the fine gold has been corroded.

[22]Adapted from the Inaugural Address, March 4, 1913.

With riches has come inexcusable waste. We have squandered a great part of what we might have used, and have not stopped to conserve the exceeding bounty of nature, without which our genius for enterprise would have been worthless and impotent, scorning to be careful as well as admirably efficient.

We have been proud of our industrial achievements, but we have not hitherto stopped thoughtfully enough to count the human cost, the cost of lives sniffed out, of energies overtaxed and broken, the fearful physical and spiritual cost to the men and women and children upon whom the dead weight and burden of it all has fallen piteously the years through.

The groans and agony of it all had not yet reached our ears, the solemn, moving undertone of our life, coming up out of the mines and factories and out of every home where the struggle had its intimate and familiar seat. With the great government went many deep secret things which we too long delayed to look into and scrutinize with candid, fearless eyes.

The great government we love has too often been made use of for private and selfish purposes; and those who used it had forgotten the people.

There has been something crude and heartless and unfeeling in our haste to succeed and be great. Our thought has been, "Let every man look out for himself, let every generation look out for itself," while we reared giant machinery which made it impossible that any but those who stood at the levers of control should have a chance to look out for themselves. We had not forgotten our morals. But we were very restless and in a hurry to be great.

We have now come to the sober second thought. The scales of heedlessness have fallen from our eyes. We have made up our minds to square every process of our national life again with the standards we so proudly set up at the beginning and have always carried at our hearts. Our work is a work of restoration.

We have itemized with some degree of particularity the things that ought to be altered, and here are some of the chief items:

A tariff which cuts us off from our proper part in the commerce of the world, violates the just principles of taxation, and makes the government a facile instrument in the hands of private interests;

A banking and currency system based upon the necessity of the government to sell its bonds fifty years ago, and perfectly adapted to concentrating cash and restricting credits;

And industrial system which, take it on all its sides, financial as well as administrative, holds capital in leading strings, restricts the

liberties, and limits the opportunities of labor, and exploits without renewing or conserving the natural resources of the country.

A body of agricultural activities never yet given the efficiency of great business undertakings or served as it should be through the instrumentality of science taken directly to the farm or afforded the facilities of credit best suited to its practical needs.

Watercourses undeveloped, waste places unreclaimed, forests untended, fast disappearing, without plan or prospect of renewal, unregarded waste heaps at every mine.

We have studied as perhaps no other nation has the most effective means of production, but we have not studied cost or economy as we should either as organizers of industry, as statesmen, or as individuals.

Nor have we studied and perfected the means by which government may be put at the service of humanity, in safeguarding the health of the nation, the health of its men and its women and its children, as well as their rights in the struggle for existence. This is no sentimental duty. The firm basis of government is justice, not pity. These are matters of justice.

There can be no equality of opportunity, the first essential of justice in the body politic, if men and women and children be not shielded in their lives, their very vitality, from the consequences of great industrial and social processes which they cannot alter, control, or singly cope with.

Society must see to it that it does not itself crush or weaken or damage its own constituent parts. The first duty of law is to keep sound the society it serves.

Sanitary laws, pure food laws and laws determining conditions of labor which individuals are powerless to determine for themselves are intimate parts of the very business of justice and legal efficiency.

These are some of the things we ought to do, and not leave the others undone,—the old-fashioned, never-to-be-neglected, fundamental safeguarding of property and of individual right.

We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be, in the spirit of those who question their own wisdom and seek counsel and knowledge, not shallow self-satisfaction or the excitement of excursions whither they cannot tell. Justice, and only justice, shall always be our motto. And yet it will be no cool process of mere science. The nation has been deeply stirred, stirred by a sol-

emn passion, stirred by the knowledge of wrong, of ideals lost, of government too often debauched and made an instrument of evil.

G. CONSERVATIVE FACTORS IN DEVELOPMENT OF SOCIAL CONTROL

59. Arrested Constitutional Development[23]

BY MYRON T. WATKINS

As the thought and conduct of a people, reflecting and reacting upon their material conditions, are ever in flux, it follows that the ability to crystallize their thought into law with a fair degree of spontaneity is the condition of a stable institutional development. But the government of this country was conceived at a time when the individual was too far in the ascendent, when there was too little need of state activity, and when man had too freshly in mind the tyranny of England, for any opinion other than that government is a necessary evil to find expression in the American system. The government, accordingly, was to be hampered at every turn in the exercise of its authority. It was, moreover, considered to be like a machine whose function must be now and forevermore the same. Consequently it was believed that an arrangement of the parts that permitted the very limited functioning then needed should be fixed and made impervious to any subsequent change which might contemplate a wider functioning. For had they not clearly in mind the evils attendant upon the exercise of large powers by the state?

With this attitude toward government and law, the framers of the American government provided a rigid separation of the departments of government, an inflexible amendment clause, and a comprehensive Bill of Rights. Under the separation of departments, there may be three very divergent policies all seeking to operate at the same time. Since the sponsors of none are responsible for the efficient functioning of the whole, and since there are no provisions for a means of co-ordination, it is apparent that the exercise of social control is very difficult. This lack of means of co-operation makes it possible, in almost any case, for any one of the three powers, from either conservatism, jealousy, or irresponsibility, to inhibit the operation of any administrative instrument or law, and thus make social control ineffectual if not impossible. An inflexible amending clause is an expression of the belief that the functions of government do not change. This makes an extension of state powers to protect social interests very difficult.

[23]Adapted from an unpublished essay entitled, "The Regulation of Competition, a Means of Adjusting Industrial Development to Social Ideals."

The Bill of Rights was conceived to be an embodiment of all the "immutable laws of nature," which by some divine guidance the English-speaking peoples had struck upon. In fact, there are parts of these guaranties which have been so construed as to provide immunities quite inapplicable to any other than a frontier society—where all men are economic "prime-movers," and where the limits to the improvement of land are unrealized. One illustration will suffice. That part of the Fifth Amendment which declares that "no person shall be deprived of . . . property without due process of law," while just and necessary if interpreted in view of the existing conditions, may operate to effect the very thing which it was intended to prevent, if applied without reference to a possible change in what constitutes property. Thus an act prohibiting certain employers from discharging employees because of membership in a labor organization was declared unconstitutional,[24] on the ground that the actions prohibited are part of the liberty of the employer protected by the Constitution from limitation or regulation. Regardless of the technical merits of the decision, it manifests the disposition on the part of the courts to consider the relation of employer and employee as it was on the frontier when there was much more equality of bargaining power.

The chief reason for our inability to secure needed social control has been that our political institutions have been hampered with defined, fixed, legal rights. As a result we have, on one hand, a government which undertakes any action haltingly lest it overstep the bounds of its narrow function, or disturb the equilibrium of its self-imposed parts, and, on the other hand, a declaration of principles capable of wide or changing application, or of narrow and strict application. The result has been an ultra-conservative interpretation of rights and responsibilities by each of the three organs of government; each, fearing from its own jealous traditions to depart from its historic construction of powers by conceiving larger functions for themselves. If the state could have functioned as an organic whole, there seems no reason to believe that the rights and responsibilities embodied in the Bill of Rights would have been so arrested in their development.

60. The Anti-Paternalism of the Government[25]

Paternalism, whether state or federal, as the derivation of the term implies, is the assumption by the government of a quasi-fatherly relation to the citizen and his family, involving excessive govern-

[24] *Adair* v. *United States*, 208 U.S. 161.

[25] *State* v. *Switzler*, 143 Mo. 287 (1897).

mental regulation of the private affairs and business methods and interests of the people, upon the theory that the people are incapable of managing their own affairs, and is pernicious in its tendencies. In a word, it minimizes the citizen and maximizes the state. Our governments are founded upon a principle wholly antagonistic to this. Our fathers believed the people capable of self-government. Such a government is founded upon a willingness and desire of the people to take care of their own affairs and an indisposition to look to the government for everything. The citizen is a unit. Under self-government we have advanced in all the elements of a greater people more rapidly than any nation that has ever existed upon the earth, and there is greater need now than ever before in our history for adhering to it.

61. Industrial Freedom and Prosperity[26]

BY JAMES J. HILL

Among the radical and permanent, as distinguished from the partial and temporary, causes of bad times, one stands out preeminent by the volume of its effects and the persistence with which it has raged all over the country, namely, the legislative crusade against business. I speak here of no particular act, for the business interests of the country as a whole have been under fire for more than ten years. The attack has steadily increased in violence and decreased in discrimination. The ingenuity of restless minds has taxed itself to invent new restrictions, new regulations, new punishments for guilty and innocent alike.

While existing laws were allowed to fall into more or less disuse, new laws were heaped on one another. Each of these invaded some new territory, laid the hand of authority upon some new occupation, drew closer the circle of business interference to bureaucracy. Innovation scarcely stopped short of declaring any distinct business success prima facie evidence of crime. The country is feeling the inevitable effect.

When hostile regulation goes to this extent, without promise of limit to either its objects or its orders, business comes to a halt though tariff rates are raised to the skies. It cuts down present activity, and it puts a veto on all expansion. The present may be obscure, but the future looks black. For here industry begins to feel the indispensable effects of capital withdrawn, and to realize the effects that follow its withdrawal.

[26]Adapted from an address delivered before the Rochester Chamber of Commerce, December 5, 1914.

Nowadays it is the fashion to overlook the claim of capital in production. The mistake is costly. For new plants will not be built, raw material will not be bought, wages cannot be paid unless capital is ready in sufficient quantities. It will be ready only on condition that it expects to earn at least a reasonable profit. There is no reason why it should take the risks present in even the most conservative employment unless there is a possibility of commensurate profit. That possibility must have a promise of continuance sufficient to make it worth while to go into the enterprise at all.

Now it is exactly these indispensables, a fair return and a reasonable lease of life, that continuous legislation against business has destroyed, or has threatened to destroy. Politicians have acted upon the theory that it is good to burn down your house because a chimney smokes. Fire has been started in many places.

Our progress toward a centralized paternalism is so marked and has gone so far that the Socialist has little reason to complain that his party has not secured a majority. Every year sees the transaction of business made more expensive by laws prescribing multiplied and costly reports, ordering expensive improvements or additional services, laying new taxes, compelling the hiring of additional employees.

This is the history of paternalism, of centralization, since the beginning. Under the tribute it attempts to levy, business in the United States will eventually become unable to conform to the onerous conditions of the new era. It would be some compensation if the governing system were efficient. But it is as incompetent as it is expensive. This is not the fault of any man or party; it inheres in the method itself, and in the persistent American delusion that democracy can afford to overlook, in its selection of governing instruments, the question of fitness. Nowhere else outside the strictly barbarous countries is the idea that public place should presuppose some direct business qualification so contemptuously rejected.

Industries which represent billions of capital, capital belonging largely to people of moderate means, are under the order of officials chosen for political reasons, many of whom could not earn on their merits a salary large enough to keep them alive in the service of the concerns which are now at their mercy. It is not malevolence, it is not corruption, that strikes at the heart of business so dominated; it is the ignorance of well-meaning men who have been placed, for political considerations, where they do not belong, where they can do no good, and may be able to do immense harm.

It is a master-stroke of irony that while business all over the country has been spending time, effort, and money in an endeavor to realize efficiency, the governments to which it must render an account and whose orders it must obey remain the most striking examples of inefficiency to be found anywhere in the world.

The main outlines of the business situation are clear. The country may enter, after the close of the European war, upon a period of remarkable prosperity. So it will be given the task of providing for a time for a maintenance of a considerable portion of the world's industry. The great and continued demand should be a guaranty of a corresponding prosperity. It would be so if no artificial conditions intervened. But, to realize this, both capital and business initiative must have reasonable freedom. But it is less easy to take advantage of opportunities than ever before. At every promising opening industry sees a sign-board, erected by public authority, bearing the words "No thoroughfare." If the next five years are to repeat the history of the last ten, there can be no general improvement and no general prosperity in the United States.

These words are not spoken hopelessly. The American people have an enormous fund of underlying common-sense. It is fundamentally conservative, though it loves to follow the circus parade once in a while, listen to the music, and applaud the clown. Since its own well-being is now definitely at stake, it is not unreasonable to hope that it will take a few simple steps toward the realization of its hopes.

The first and indispensable requirement is a respite from attack for the business interests of the country. So great are its recuperative powers that probably one or two years of freedom from foreboding as well as from assault would accomplish great things for industry.

Subordinate the extension of the sphere of governing power to an improvement of its quality. It is time for all to remember that no man has a right to hold public office, from the top to the bottom, unless he has knowledge of that line of work.

Rest from agitation, intelligent economy, efficiency, harmonious co-operation for business institutions as well as for political divisions—these are not abtruse ideas. They are things as long familiar and as little reverenced by the mass of men as the contents of the Decalogue. We must go back to them or suffer the penalty paid by every creative thing that defies the law of the physical or that of the moral order of the world.

62. Public Enemies[27]

BY WALT MASON

If you build a line of railway over hills and barren lands,
Giving lucrative employment to about a million hands;
If you cause a score of cities by your right-of-way to rise,
Where there formerly was nothing but some rattlesnakes and flies;
If when bringing kale to others you acquire a little kale,
Then you've surely robbed the peepul and you ought to be in jail.
If by planning and by toiling you have won some wealth and fame,
It will make no odds how squarely you have played your little game;
Your success is proof sufficient that you are a public foe—
You're a soulless malefactor; to the dump you ought to go.
It's a crime for you to prosper when so many others fail;
You have surely robbed the peepul and you ought to be in jail.
Be a chronic politician, deal in superheated air;
Roast the banks and money barons, there is always safety there;
But to sound the note of business is a crime so mean and base.
That a fellow guilty of it ought to go and hide his face.
Change the builder's song triumphant for the politician's wail,
Or we'll think you've robbed the peepul and we'll pack you off to jail.

63. The Dominance of the Entrepreneur View-Point

It requires no great familiarity with the political and economic history of England and the United States in the last hundred years to reveal the dominance of industrial interests in shaping legislation. The men who have ruled the commercial world and created the industrial systems of these two countries have ostensibly been advocates of the policy of non-interference with industry. But in practice they have drawn the line only at legislation which adversely affects business. They have never lost an opportunity to make a most active use of the machinery of government in furthering their own interests. A casual study of the legislation passed in this country during the decade ending in 1907 will show how potent has been the influence of this class. In general the legislation is in keeping with the interests of the producing classes; in particular it seems to have been shaped largely from the entrepreneur view-point. So dominant has the latter been as almost to preclude a consideration of legislation tending to general social betterment. Perhaps unconsciously, rather than consciously, has a view-point which con-

[27]Reprinted in the *Commercial and Financial Chronicle*, C, 177, from the *Journal of Electricity, Power, and Gas* (1914).

siders primarily the interests of only a small part of the people written itself into our political activity. But, even then, in a democracy, such as the United States, how has the view-point of a class become so powerful as to shape general legislation?

The answer to the question must find a beginning in the technical changes which characterized the Industrial Revolution. The most significant of these was the replacement of the tool by the machine. A tool is a simple instrument, costing very little, useful for a number of different tasks, and depending for its success upon the skill of the laborer using it. A machine, on the contrary, is a complex of many parts, costing much in labor and accumulated wealth, useful for a highly specialized task, and depending for its success upon the nicety of its own mechanism. Where tools were universally used, the time of the productive process was short, productive establishments were many, and the laborer was quite independent. The cost of the machine, and the very small contribution which a single unit of product can contribute to it, prevent the machine from being used except in the production of a large number of units. But the specialization of the machine requires the use of a large number of machines in the production of a single article. Under machine production the economical industry is likely to be the one which differentiates the productive process into the largest number of separate acts for each of which a machine is used. The modern industrial unit is likely to be large, making use of much capital, and employing many laborers. Because of the peculiar adaptability of the machine to their needs, manufacturing, mining, transportation and industrial establishments have increased to great size, and have come to occupy positions of the highest importance.

This vantage position becomes of all the more importance when we realize the purpose for which the business is being conducted and its relations to other industrial units. In form it is a corporation. There exists no necessary personal relation between the management of the corporation and the stockholders. This means that the investors are demanding dividends; that the management must produce dividends. It is, therefore, natural that the relationship between the corporation's activities and social good is not kept in mind by those interested in the corporation's success. In the complex arrangement of modern business a social means has become an individual end.

Relative to other businesses it occupies a strategic position. The productive process is a long one with many steps between the production of raw materials and the sale of the finished product. Only a few operations are performed by industrial concerns which make

an extensive use of machinery. But the smaller concerns must secure regular dividends, and are, therefore, dependent upon the favor of the large concern. Unconsciously they come to share the attitude of the men directing larger businesses. The complexity of modern industry has also resulted in creating a number of subsidiary agents who perform general services which are necessities of the productive process. Chief among these are the agencies of credit and investment, banks, stock and produce exchanges, insurance companies, loan and mortgage associations. Since generally these institutions make their large profits from the operations of the entrepreneur class, and in many cases are creatures of mining, manufacturing, and transportation interests, those who control them naturally think in terms of entrepreneur interests. Among other subsidiary interests are those of the legal, advertising, and newspaper professions. Constant association with the entrepreneur class, identity of pecuniary interests, and an unconscious imbibing of managerial habits of thought make the views of the legal class closely akin to those of the industrial magnates. The growth of business has caused the newspaper to undergo a peculiar development. In its early history it was primarily a news-sheet, and was dependent for its success upon the faithfulness of its representation of the interests of the subscribers. Advertising was an incidental feature. Now the element of impersonality is distinctly marked in the news-vending business. The newspaper is owned by a corporation, the stockholders demand that dividends be forthcoming, and the management has no alternative. For that reason the advertisement as a source of revenue has appealed more and more to the business office. Now it is safe to say that a large subscription list is incidental to charging high rates for advertising. So it has come about that, consciously or unconsciously, the business office exercises considerable influence over the editorial and news policy of the paper. This has resulted in making a large part of the press a ready vehicle for the dissemination of information and opinions favorable to "big business."

The position in which the laborer is placed forces him to think largely in acquisitive terms. He sees in organization and in political activity a means for individual betterment. But wages for his labor he must receive regularly. In many cases the time-period in terms of which his thought processes run is no longer than a month, in many cases it extends only till Saturday night. So far as his own labor is concerned, especially if he is skilled, the laborer is relatively immobile. It is too much to expect him to vote in favor of a radical change in the industrial organization. His immediate interests are

so inseparably bound up with those of his employer that to a large extent the latter's political views are his.

Through a very elaborate differentiation of functions and an equally elaborate integration of parts, modern industrialism presents the appearance of a vast, intricate, and extremely delicate machine. Its financial operations are carried on through the instrumentality of credit. So long as confidence holds out, the system moves along smoothly. But so soon as men lose confidence a train of activities is set in motion which may result in the destruction, at least temporarily, of the acquisitive powers of many classes. The very delicacy of this mechanism creates a fear of disturbing the present arrangements. The business man feels that his interests are bound up with those of the large industrial and financial concerns, and for that reason he opposes innovation. The necessity for winning immediate profits deters him from favoring radical schemes.

The stratification of society rests ultimately upon a pecuniary basis. The higher classes enjoy a prestige that causes the lower classes to imitate them in dress, in code of morals, in habit of thought, in political opinion. The position of men in the entrepreneur class is very high. Their opinions upon all questions, particularly political questions, in which they have a peculiar interest, are likely to filter down through the various social strata which make up the state, and become a part of common-sense political philosophy. In the political system the legislator can better keep himself in office by favoring the local interests of his district than by working for legislation for the general good. To the continuance of his political life the business man who occupies a strategic position industrially, and who can make a substantial campaign contribution can contribute much.

Other social currents, more subtle and harder to detect, also contribute to the dominance of the entrepreneur viewpoint. Machinery has awed the human mind with a sense of its power and its strength. As a result to the modern mind the idea of size is almost identical with the idea of importance. To the superficial mind the large industrial establishment which employs many men is thought of as the cause of its laborers being employed. It appears that the factory or mill is an institution of Providence from which flows the blessings which the laborers' families realize through an expenditure of the wages paid out by it. We know that the coming of the machine multiplied individual productive powers, increased the size of economic incomes, and raised the general standard of living.

Without going to the trouble of making nice distinctions one instinctively associates machine industry with progress and regards industries in which machinery is extensively used as really important, and looks upon those in which it is not so extensively used as old-fashioned, and of little social value.

Machinery, too, favors the concentration of population, while non-mechanical industries favor its dispersion. This concentration brings into play all the sentimental forces which play about place, locality, and the city greatly to the advantage of local landowners. The manufacturing interests which make the city possible thus come to be regarded as necessary means to the realization of civic ends. The importance of these industries has in public thought been still further increased by what may be called the impersonality of capital. The investment of capital tends to separate itself from the personal business inclinations of its owner. To the extent that industry depends upon capital for success, the state or municipality can not secure the industry simply by an appeal to the personal tastes and local prejudices of the owner. Special privileges have to be offered. Thus the competition of local units results in a state of public opinion favorable to the interests of industries carried on on a large scale.

Of course other forces are at work in moulding political opinion. Many other attitudes are mixing themselves into the complex nexus of the attitude of the public towards industry. Into these currents of opinion it is not our purpose to go. It may be that they will be crushed before the powerful blow of entrepreneur views. Or it may be that they will blend themselves with that viewpoint, modify it, and render it less acquisitive and more considerate of social interests. Only time can tell.

64. The Futility of Utopian Legislation[28]

BY ELIHU ROOT

When proposals are made to change our fundamental institutions there are certain general conditions that should be observed.

The first is that free government is impossible except through prescribed and established governmental institutions, which work out the ends of government through many separate human agents, each doing his part in obedience to law. Popular will cannot execute itself directly except through a mob. Popular will cannot get

[28]Adapted from *Experiments in Government and the Essentials of the Constitution,* 11–22. Copyright by the Princeton University Press (1913).

itself executed through an irresponsible executive, for that is autocracy. An executive limited only by the direct expression of popular will cannot be held to responsibility against his will, because, having possession of all the powers of government, he can prevent any true, free, and general expression adverse to himself. We should, therefore, reject every proposal which involves the idea that the people can rule only by voting.

A second is that in estimating the value of any system of governmental institutions due regard must be had to the true functions of government and to the limitations imposed by nature upon what it is possible for the government to accomplish. We all know that we cannot abolish all the evils in the world by statute, nor can we prevent the inexorable law of nature which decrees that suffering shall follow vice, and all the evil passions and folly of mankind. Law cannot give to depravity the rewards of virtue, to indolence the rewards of industry, to indifference the rewards of ambition, or to ignorance the rewards of learning. The utmost that government can do is measurably to protect men, not against the wrong they do themselves, but against the wrong done by others, and to promote the slow process of educating mind and character to a better knowledge and nobler standards of life and conduct.

We all know this, but when we see how much misery there is in the world, and some things that government may do to mitigate it, we are prone to forget how little, after all, it is possible for any government to do. The chief motive power that has moved mankind along the course of development that we call the progress of civilization has been the sum-total of intelligent selfishness in a vast number of individuals, each working for his own support, his own gain, his own betterment. It is that which has cleared the forests and cultivated the fields and built the ships and railroads, made the discoveries and inventions, softened by intercourse the enmities of nations, and made possible the wonders of literature and art. Gradually, during the long process, selfishness has grown more intelligent, with a broader view of the individual benefit from the common good, and gradually the influences of nobler standards of altruism, justice, and sympathy have impressed themselves upon the conception of right conduct. But the complete control of such motives will be the millennium. Any attempt to enforce a millennial standard now by law must necessarily fail. Indeed no such standard can ever be forced. It must come, not by superior force, but from the changed nature of man.

A third is that it is not merely useless but injurious for government to attempt too much. It is manifest that to enable it to deal

with the new conditions we must invest government with the authority to interfere with the individual conduct of a citizen to a degree hitherto unknown in this country. While the new conditions of industrial life make it plainly necessary that many such steps shall be taken, they should be taken only so far as they are necessary and effective. Interference with individual liberty by government should be jealously watched and restrained, because the habit of undue interference destroys that independence of character without which, in its citizens, no free government can endure. Just so far as a nation allows its institutions to be molded by its weakness of character rather than by its strength, it creates an influence to increase weakness at the expense of its strength. Undue interference by government is at the expense of individual initiative, energy, enterprise, courage, independent manhood.

A fourth is that in the nature of things all government must be imperfect because men are imperfect. Every system has its shortcomings and inconveniences; and these are seen and felt as they exist in the system under which we live, while the shortcomings and inconveniences of other systems are forgotten or ignored. It is not unusual to see governmental methods reformed and, after a time long enough to forget the evils that caused the change, to have a new movement for reform which consists in changing back to substantially the same old methods that were cast out by the first reform. The recognition of shortcomings is not in itself sufficient to warrant a change of system. There should be an effort to estimate and compare the shortcomings of the system to be substituted, for although they may be different they will certainly exist.

A fifth is that, whatever changes in government are to be made, we should follow the method which undertakes as one of its cardinal points to hold fast that which is good. When we take account of all that governments have sought to do and have failed to do in this world, we find as a rule that the application of new theories, though devised by the most brilliant constructive genius, have availed but little to preserve the people for any long periods from the evils of despotism on one hand or of anarchy on the other, or to raise any considerable portion of the mass of mankind above the hard conditions of oppression and misery. And we find that our system of government, built up in a practical way through many centuries, has done more to preserve liberty, justice, security, and freedom of opportunity, for many people for a long period, than any other system of government ever devised. Human nature does not change very much. The forces of evil are hard to control, as they have always been. It is easy to fail and hard to succeed in reconciling liberty and order.

H. THE BASIS OF NATIONAL EFFICIENCY

65. Individualism and American Efficiency[29]

BY ARTHUR SHADWELL

The United States is new, partly developed, and untrammeled by traditions. It is not a homogeneous country, but a medley of peoples, nations, languages, creeds, and climates, having in daily life little in common but the mail, the currency, and the tariff. The British Empire itself hardly comprises a more heterogeneous racial assortment; it has the white man, the black, the red, the yellow, and the hybrid; the yellow includes most kinds of Asiatic and the white, every kind of European. Soil and climate are no less varied than the population; and though laws and social conditions exhibit more homogeneity, they yet exhibit large and numerous discrepancies. Still the United States is a nation, and the people possess some distinctive national qualities, well worth considering.

In general they are alert, inventive, ingenious, and adventurous beyond all other people, but hurried, careless, and unthorough. The merits of this temperament are more immediately obvious than its defects. The roar and bustle of industrial life in America, the excitement, the abundance of novelty, the enormous scale of operations, the boundless adventure, the playing with millions—all these impress the mind and draw attention from the defects which they foster and conceal. An English workman who had lived for years in the heart of it, where the smoke is thickest, the roar of machinery loudest, and the sound of millions most common, summed it up better than anyone I have met. "This is an adventurous country," he said; "they think nothing of millions; but it's all hurry-skurry work. Let her go! Give her hell! That's the word."

The recklessness is magnificent, and I suppose that at present it is business; but that is because the country is not yet filled up. There seem to be boundless possibilities within the reach of every man, and being generally intelligent, alert, and ambitious, they hurry to realize them. If a man fails today in one direction, no matter; he can try again tomorrow in another.

The Yankee of old, as presented in literature, was an astute but deliberate person, saying very incisive things in a slow, drawling way, quick of mind, but slow of movement, not to be hurried, and much given to "whittling," which is not a very feverish and purposeful occupation. Does anyone whittle now? The present spirit arose with

[29]Adapted from *Industrial Efficiency*, I, 1–47 (1906).

the development of the railway system, which opened up the country, poured in the population, brought the natural wealth to the market, and produced the millionaire. Since then industrial activity has gone with a rush. There was money to start industries and money to be made out of them. There were power and raw materials in the ground; there was labor, skilled or unskilled, coming along all the time. And there was nothing to hinder; no enemies to watch, no army to keep up, perfect security and tranquillity. A great industrial expansion was inevitable; it could not help coming and bringing with it boundless possibilities of wealth. The millionaire multiplied, swelled to double, treble, tenfold his former bulk, and set such a glorious, shining, dazzling example that no man could behold it unmoved. Now in the United States there is "equality of opportunity," and all men with millionairedom in their souls—a numerous body—felt that even if they could not reach that height they might get near to it. So the scramble for money became the occupation of a large part of the people. Hence the commercial hurry-scurry.

Trouble-saving, rather than time-saving, is characteristic of the Americans. It is the former, not the latter, that has an intimate relation to the distinctive qualities of their industrial success. The line in which they are supreme is the invention of labor-saving machinery. They possess an inexhaustible fertility in devising ingenious contrivances for replacing toil. One explanation of this is the necessity of minimizing labor because of its high cost. No doubt that is a great stimulus, but there is more than that. There is a positive dislike of processes involving physical exertion. Perhaps it is chargeable to mental activity and eventually traceable to climate. At any rate it exhibits the paradoxical combination of love of hurry and dislike of bodily exertion.

These qualities have a weak side. They are fatal to thoroughness and finish unless these can be attained by mechanical means, which is very rarely the case. For first-class work some plodding is required. It is surely remarkable that so little first-class work of any kind is produced in the United States, with all its wealth, population, intelligence, and educational keenness. All the recent discoveries of importance, from bacteria to radium, have come from Europe. The number who go into the professions is large, and they produce a great deal of a certain quality, but nothing really first class. They never carry anything to its legitimate development, to the point of being a masterpiece. What is wrong is an attitude of mind that has never gotten beyond adolescence.

There is danger that slovenliness may become a national habit. "Slovenliness is something more than a violation of good taste; it is

indifference to the best way of doing things; it is a kind of easy-going morality in matters of method." "Let it go at that" seems to be written all over the face of the land. You see it in the slovenliness of their language; in their affectation of slovenliness as a smart thing. You see it in wretchedly laid railway tracks, in swaying telegraph poles, in sliding embankments, in broken-down vehicles with rickety wheels too slight for their work, in harness tied up with a string, in scamped and hurried work everywhere. There seems to be a disdain of thorough workmanship and detail in finish.

The same national feeling is conspicuous in the factory and workshop. You may see machinery racketing itself to pieces and spoiling the material in the attempt to run faster than it can; you see waste of fuel and steam, machinery clogged and spoiling for want of care and cleanliness, the place in a mess and the stuff turned out in a rough, badly finished state. When you see this over and over again, you begin to understand why the United States, with all its natural advantages, requires a prohibitive duty on foreign manufactures which it ought to produce better itself.

The Americans are a highly emulative people, and anxious to beat not only their competitors but themselves. "Beat our own record" is one of the mottoes. A different trait is embodied in another motto—"Don't grumble, boost." One method of boosting in America deserves particular attention, that of advertisement. In this Americans lead the world so successfully that no competitor is in the running. Its development is assisted by the very curious trait of toleration of shams. Like the toleration of unfinished work with which it is connected, the toleration of shams is pervasive. It is illustrated in daily life by the pretense of a single class in railway traveling, by the use of such euphemisms as "help" for servant and "charity" for pauperism. Almost an affection for shams is shown in the encouragement given to every kind of imposture. America is the land above all others where everything that appeals to credulity and ignorance flourishes. It is there that new religions arise. It is there that the medical quackeries, the patent foods, the beautifiers, and all that gallery flourish most. I attribute this vogue to the boundless faith of Americans in their own country as the pioneer of civilization and enlightenment, to the wide diffusion of superficial education, and to the general contempt for the experience of mankind at large.

They have no reverence for what is old and proved outside their own borders. The mass of people believe that there is nothing to learn from other countries and that all things are possible in their own land. This feeling amounts to a superstition. In Europe, Germany, for instance, laws are made to be kept, and to that end they

are very carefully made. In the United States the general contempt for law is astonishing. I am inclined to think that it is the most salient feature of American civilization. Laws thought to be oppressive are not obeyed; they are evaded or defied. And I know no country in which laws that interfere with liberty of the individual are so common. They seem to be intended, not for the protection of the public and the maintenance of order, but for the promotion of morality. Of course, they cannot possibly be enforced.

The position of woman in America is peculiar, resting upon the accidental fact that there she is in a minority. The law of supply and demand gives her an effective advantage which the theory of equality enables her to utilize. In Europe, women are subordinated; in America, they are dominant. In the former they take orders; in the latter they give them. In the former the man is the boss; in the latter, the woman. The ideal wife, I suppose, is at once a helpmeet and a stimulus. In Europe the former predominates; in America, the latter. Each exercises a powerful influence on national life. In the former one of the largest elements of national strength is the domestic character of the women. In the latter the feminine stimulus is a great incentive to that strenuous application and restless enterprise which stand out so strongly. Both characters have their weak points; the helpmeet is likely to be blunted to a drudge, the stimulus to be sharpened to a goad. Of the two the latter is the greater evil. The spoiling of women, though it makes the men work, is not good for the women; it fosters an exacting disposition, extravagance, love of amusement, and a distaste for domestic duties which threatens national vitality. And it reacts on the men, who console themselves elsewhere for exactions submitted to at home.

But, as for America, there is, after all, a spirit in the air which is not all due to climate—the spirit of endeavor, of expansion, of belief in a great destiny in which every individual shares. It is an inspiring atmosphere.

66. German Socialized Efficiency[30]

BY SAMUEL P. ORTH

Is Germany a model for our democracy? What price is she paying for her well advertised efficiency? How is her paternalism affecting human nature?

The lure is a socialized Germany. The State owns railroads, canals, river transportation, harbors, telegraphs, and telephones.

[30]Adapted from an article in *The World's Work,* XXVI, 315–321. Copyright (1912).

Banks, insurance, pawnshops, are conducted by the State. Municipalities are landlords of vast estates; they are capitalists owning street car lines, gas plants, electric light plants, theatres, markets, warehouses. The cities conduct hospitals for the sick, shelters for the homeless, soup-houses for the hungry, asylums for the weak and unfortunate, nurseries for the babies, homes for the aged, and cemeteries for the dead.

Add to this the vast and complex system of State education, a system of training that aims at livelihood. Nothing like the perfection, the drill, and the earnest, unsmiling efficiency of these elementary and trade schools exists anywhere else in the world. In 1907, there were 9,000,000 children in the elementary schools, taught by 150,000 teachers, nearly all masters, as the "school ma'am" does not flourish in the Kaiser's realm. Every one of these pupils is headed for a bread-and-butter niche in this land of super-orderliness. And more than 300,000 persons are employed by the State in some form of educational work, training the youth into adeptness, in all sorts of schools.

The army, as well as the school, brings home to every German family the fact that the State is watchful—and jealous. It demands that two full years of every young man be "socialized"; and the peasant woman and the artisan's wife must contribute her toil to the toll that the vast system of State discipline demands.

Even the Church, that form of organized social effort which is everywhere first to break away from the regimen of the State, remains "established." So I might continue through almost every activity—the vast system of State railroads, mines, shipyards—and include even art and music.

This socialized Germany is also an industrialized Germany. Everyone knows how cleverly advertised are German goods. But it is always well to remember that this race of traders and manufacturers has somehow, in one generation, come from a race of solid scholars, patient artisans, and frugal peasants. The old Germany has disappeared; the Germany of the spectacles, the shabby coat, and the book; the Germany of Heidelberg and Weimar. A new order has taken its place. As you ride in the great express, from Cologne to Berlin, you never are out of sight of clusters of tall, smoking chimneys. Symbolic of the new Germany are the Deutsche Bank, the trade of Hamburg, and the steel works of Essen.

Now, how has it been possible to make this transformation? To create out of a slow, plodding, peasant-artisan people an industrialized population, out of a race of scholars a race of manufacturers;

to fill a land no larger than one half of Texas with 65,000,000 people who are breeding at the rate of nearly a million a year, and to engage the State in doing all sorts of things for these thriving families? It is the political miracle of the century, and its socialized efficiency is the talk of the hour. How has it been accomplished?

The Kaiser has adapted, line for line and point for point, the pattern of medieval feudalism to the exigencies of modern industrialism. So, to begin with, the Kaiser has an obedient people, in whom the feudal notion of caste is second nature. Every one has his place, and shall keep it. Such shifting as now is tolerated is due to wealth and to the kind of ambition which luxury always awakens.

You cannot have superimposed classes without obedience. The average German is docile, and wants to be told what to do.

The Government has its eager hands in every pocket, its anxious fingers on every pulse. From the cradle to the grave, the State watches the individual, commands him and, in a way, cares for him; always seeing to it that he has a place in the national economy and that he keeps it.

To an outsider, of course, the inner workings of the mind and heart are hidden. But the outer aspect of the German State is perfectly patent. It is mechanism—there can be no doubt about it—the mechanism of the solar system. It is a land where every member of Society has an ordained orbit and moves in it around the central sun, the State, which radiates a mystic gravitation into every activity—almost every thought—of every man, woman, and child.

Here you see the most varied activities held to the ideals of efficiency through a perfected feudalism. So that all Carl and John need to do is to obey; then they are taught the rudiments of learning and a trade, are insured against the most disturbing episodes of life, assured also of some leisure, considerable amusement, and a decent burial. And that is life!

Of all invented contrivances this German machine is the most amazing, this vast enginery of State with the patents of Hohenzollern, Bismarck, & Co. on every part, that has reduced the life of a great people to complacent routine and merged the rough eccentricities of all into a uniformity of effort and ambition.

It is true that John and Carl can live their ordered lives in routine and contentment, rounding out year after year of plodding toil, paying their dues to the various funds and their taxes to the Government, rearing their families, and entrusting them to the same over-care. But what sort of creatures does it make of John and Carl, and of their children and their childrens' children?

There is no exact way, not even a German way, of measuring originality, individual initiative, and independence. But this also is certain: patience, obedience, minute training, do not foster daring and versatility. John and Carl settle down, literally settle down, to an uneventful life, looking forward to no change, taking no risks, seeking no alternatives. Once a butcher, always a butcher. This makes Germany depressing to a restless American who is always willing to "go it alone" and to get "a run for his money."

Some years ago, Mr. Ludwig Max Goldberger gave his countrymen the cheering news that Americans need not be feared, because "all that they have done, we can imitate." This is an actual policy. I have been told by American manufacturers that they have found their machines so exactly copied in German shops that only the absence of the patent dates and of the name of the makers told them that the machines were not made in the American shop. Already this land of drill and obedience is becoming an empire of conscious imitators.

There are on the German horizon ominous portents. First I should place the moral and psychological effects of luxury. Few nations can stand the sapping suction of plenty. The effect of the profligacy that is everywhere apparent in the New Germany will be particularly swift and fatal in a people who for generations have been frugal and plain.

On top of this wealth is an imperial debt that has risen from $490,000,000 in 1901 to $1,345,000,000 in 1912; this without reckoning the provincial and municipal debt which is four times larger than the imperial. The burden of taxation in 1912 was $70 per average family.

And on top of this burden of debts sits the militarist, 1911-12, taking 622,520 young men out of the fields and factories for the standing army. This year 130,000 more are to be called out; and a new and unheard-of war program is proposed to this patient and obedient people. One must admire alike the audacity of the proposal, the patriotism of the voter, and the magnificent discipline that has wrought such submissiveness.

The red omen is the most conspicuous. Socialism is skillfully combining the revolt against this imperial, personal Government, and the desire of the workman for a greater share of the wealth of the land.

If a revolt succeeds, what will happen to this centralized bureaucracy? What will become of the system of state aid and municipal socialism? For without an efficient bureaucracy you cannot have an

effective paternalism; and without centralized administration you cannot run railroads, theatres, and pawnshops.

It is the one point usually overlooked by the enthusiasts. They paint glowing pictures of socialized Germany, but they fail to look under the surface. Germany's system is built upon discipline; hard, military, iron discipline, that grips every baby in its vise and forces every man into his place; a benevolent tyranny, no doubt, but nevertheless a tyranny; an efficient feudalism, but none the less a feudalism of self-conscious caste and fixed tradition.

No doubt the time has come when we must modify our system of extreme individualism by some system of social coöperation. How far shall we proceed in this path of socialized efficiency? Are we willing to pay the German price? Could we do it even if we wished to? Only a few peoples are fitted for such rigor. I believe that America would be a poor place for a Hohenzollern efficiency test. The carefully trained American barber would quite suddenly take it into his head to be a sailor or a constable, and "all the king's horses and all the king's men" couldn't hold him to his economic predestination.

When all has been said, I cannot escape the conviction that the real significance even of Germany is not in what the State has done for the workman but what the German workman has succeeded in doing for himself, in spite of the State.

This brings us back to the first postulate of Anglo-Saxon individualism: the basis of social coöperation is self-help.

IV

THE PECUNIARY BASIS OF ECONOMIC ORGANIZATION

"The industrial system in which we live is without order, plan, and system; its name is Chaos," asserts our socialist friend. In a lecture on "The Relation of Political Economy to Natural Theology," an English divine says in substance, "The almost perfect way in which, without conscious intervention, our multifarious industrial activities are co-ordinated into a system that satisfies our needs bears evidence of the mysterious way in which God moves 'his wonders to perform.'" These antagonistic opinions raise some of the most pertinent questions connected with the organization of society. Is our economic world one of order? Can industrial organization maintain itself without authoritative interference? Is the "automatic" organization of society the most economical? Can it be supplemented, controlled, or superseded? Does it serve, or can it be made to serve, the requisite ethical ends? In this division attention is given only to the more immediate aspects of these general problems. A consideration of the factors of a developing society which complicate them must be reserved to the next division.

The first question can be given a definite affirmative answer: our system is possessed of order. The nicety with which men and "jobs," capital and opportunities for investment, and supply of and demand for goods are brought together attests this. An examination reveals in our scheme of prices an admirable mechanism for preserving this organization. Rising prices attract capital, labor, or goods; falling prices repel them. Back of this we find an active organizing agency in pecuniary competition. Further examination shows that our system is admirably adapted to manipulation through price changes. Labor, capital, and goods are mobile; the industrial technique is plastic; and our scheme of values has translated itself very largely into pecuniary terms. We have also devised several special contrivances which tend to eliminate personal factors and make easier the exercise of the motivating power of price. Of these the corporation is typical. It reduces economic judgments to the cold calculus of dollars. It has split up business opportunities into bits small enough to fit the pocket-book of the most insignificant investor; it has distributed the risks of industry in accordance with the whims of different classes of capitalists; and it has served to place capital under the control of the pecuniarily ablest managements. It has, perchance, more than once freed the pecuniarily unfit from the burden of his possessions.

The second question can definitely be answered in the negative. The system cannot maintain itself without authoritative interference. The state must preserve "law and order," maintain the integrity of basic institutions, provide an efficient monetary system, keep free the channels of trade, and act as arbiter in industrial disputes. The various trades must have their bodies of developing custom. The constraints of social usage must give at least a modicum of order to the wants of consumers. Yet the important rôle of authority in industrial organization is often lost sight of and competition itself is denounced as "ruthless." This judgment springs from a confusion of competition and laissez-faire; of the process of organization and the fundamental institutions which condition it. The "plane" of competition can

be authoritatively determined, even though competition be left "free." Accordingly the ethical character of the result depends, not on the fact of competition, but on "the rules of the game."

The third question cannot, at least at this stage of our study, be answered definitely. More than one industrial activity has been pronounced uneconomical and its personnel parasites. It requires little effort to think of many trades or vocations which for a time have enabled their devotees to reap without sowing. Such methods of acquiring "easy money" necessarily involve "economic waste," and should be forbidden. Frequently "middlemen" and "speculators" are consigned to this class of unproductive and unprofitable servants. Analysis shows that both perform very necessary functions in the organization of the market. But this does not dispose of the question of economy in organization. It may well be that there are too many "middlemen"; that there is a waste of our limited social resources at this point. And it is doubtless true that speculation frequently degenerates into gambling. If so, two problems are presented: Can the waste of resources in mercantile pursuits be checked without interfering with efficiency in service? Can speculation be stripped of gambling without interfering with the performance of its organizing functions? Almost as often the economy of the system as a whole is called into question. Our attention is directed to the "wastes of competition"; and it is urged that these wastes can be eliminated either by a policy of "regulated monopoly" or by "the socialization of industry." A consideration of these delicate problems of economic organization will have to be postponed until later in our study.

The fourth question involves several questions which cannot be answered in a single statement. The evidence seems to be against society's being able arbitrarily to fix prices that are greatly at variance with "natural" prices. The wholesale prescription of a scheme of prices is a very complex question; it practically involves a socialization of industry; economists generally would pronounce against it. However, it seems evident that prices can be indirectly changed by means of controlling demand or supply. This indirect attempt to interfere with prices is characteristic of monopoly, of trade-unionism, and of such proposals as, say, a minimum wage coupled with a control of immigration. It will reappear in connection with each of these problems. Finally, as we have already seen, society can exercise an influence over the institutional situation within which price-fixing occurs.

The fifth question we must pass by. We cannot pronounce an ethical judgment upon the organization of the present system until we have had a chance to study both the problems referred to in this section and many others. It may perchance be that even then we will hesitate to pronounce a judgment.

A. PRICE AS AN ORGANIZING FORCE

67. The Social Order[1]

BY EDWIN CANNAN

Some would have us believe that at present there is in society no organization at all. They use hard words, such as "scramble for wealth," "suicidal competition," "exploitation," "profit-hunting," and say that the present state of things is "chaotic." Now, whatever our present state may be, however unsatisfactory it is, it is certainly not

[1]Adapted from *Wealth: A Brief Explanation of the Causes of Economic Welfare*, 72–75 (1914).

chaotic. If it were really chaotic, everyone who goes to his daily work tomorrow must be a fool, since he would be just as likely to get his daily bread if he stayed at home. The very fact that we all know as well as we do that certain results will almost inevitably follow upon a certain course of action shows that we are not living in chaos. Our system may be a bad system, but it is a system of some sort; it is not chaos. If a man holds a book too close to his nose he cannot read it, and so it is with the world of industry. If we look at it from too close a standpoint we can only see a blur.

Let us imagine a committee of the Economics Section of the Association for the Advancement of Science of the planet Saturn reporting on what they had been able to see of affairs on our planet through a gigantic telescope big enough for them to see human beings moving on its face. Would they be able to report that poor Mundus seemed quite chaotic? Would they report that everyone was scrambling for himself to the disadvantage of everyone else in such a way that the general good seemed entirely neglected? Would they say that all the land in the most convenient situations was lying idle, that nobody had a roof over his head, and that everyone was running about aimlessly or sitting idle in imminent danger of starvation? They might report something of the kind if they could carry on conversations with certain people here and if they believed all they were told, but certainly not if they judged by their own observation.

They would be more likely to report that they had seen a very orderly people co-operating on the whole with a wonderful absence of friction—that they had seen them come out of their homes in the morning in successive batches and wend their way by all sorts of means of locomotion to innumerable different kinds of work, all of which seemed somehow to fit into each other so that as a whole the vast population seemed to get fed, and clothed, and sheltered. They would not, of course, vouch for the perfection of the arrangements. They would see that there were occasional irregularities and hitches. They might see now and then too many vehicles in one street, too many passengers trying to travel by one train or tramcar. They might even see along the country roads the melancholy spectacle of men tramping in both directions in search of the same kind of work. They might be able to see that some had too much—more than they seemed to know how to dispose of without hurting themselves and others—while some evidently had too little for healthy and happy existence. But in spite of these defects they would report, I think, that on the whole the machinery, whatever its exact nature, seemed to do its work fairly effectively.

And if we can imagine them able to go back five hundred or a thousand years, we can feel tolerably sure that they would report still more favorably, since they would then see the enormous improvement which had taken place and would discover no appearance of any change which would suggest that the existing system is not the outcome of an orderly development of the institutions of the past.

I insist so strongly on the fact that our existing machinery does work, not with any idea of contending that all is for the best in the best of all possible worlds, but because to understand economics it is necessary to begin by considering, not the defects in the machinery, but the main principles involved in its construction and working. We are likely to begin with the defects because it is they which strike our eye and excite our sympathy. Seven per cent of unemployed are much more likely to make us start thinking than ninety-three per cent who are in employment. The emaciated corpse of a single person starved to death naturally makes more impression on our minds than the comfortable bodies of a hundred thousand sufficiently fed citizens. But if we want to understand the reason why work and food do not quite "go round," we should begin by endeavoring to discover what, after all, certainly does not explain itself—why they go as far round as they do.

68. Competition and Industrial Co-operation[2]

BY RICHARD WHATELY

"Bees," said Cicero, "do not congregate for the purpose of constructing a honeycomb; but, being by nature gregarious animals, combine their labors in making the comb. And man, even more so, is formed by nature for society, and, subsequently, as a member of society, promotes the common good in conjunction with his fellow-creatures." Most useful to Society, and much to be honored, are those who possess the rare moral and intellectual endowment of an enlightened public spirit; but, if none did service to the Public except in proportion as they possessed this, Society, I fear, would fare but ill. As it is, many of the most important objects are accomplished by the joint agency of those who never think of them, nor have any idea of acting in concert; and that with a certainty, completeness, and regularity which probably the most diligent benevolence, under the guidance of the greatest human wisdom, could never have obtained.

[2]Adapted from *Introductory Lectures on Political Economy,* 2d ed., 90–98 (1832).

For instance, let anyone propose to himself the problem of supplying with daily provisions of all kinds a city containing above a million of inhabitants. Let him imagine himself intrusted with the office of furnishing to this enormous host their daily rations. Any considerable failure in the supply, even for a single day, might produce the most frightful distress. Some of the articles consumed admit of being reserved; but many, including most articles of animal food, and many of vegetable, are of the most perishable nature. A redundancy of supply would produce great waste.

Moreover, in a district of such vast extent, it is essential that the supplies should be so distributed among the different quarters as to be brought almost to the doors of the inhabitants. Moreover, whereas the supply of provisions for an army is comparatively uniform in kind, here the greatest possible variety is required, suitable to the wants of various classes of consumers. Again, this immense population is extremely fluctuating in numbers; and the increase or diminution depends upon causes which cannot be distinctly foreseen.

Lastly, and above all, the daily supplies of each article must be so nicely adjusted to the stock from which it is drawn—to the scanty, or more or less abundant harvest, or other source of supply—to the interval which is to elapse before a fresh stock can be furnished, and to the probable abundance of the new supply, that as little distress as possible may be undergone; that upon the one hand the population may not unnecessarily be put upon short allowance, and that on the other hand they may be preserved from the more dreadful risk of famine, which would ensue from their continuing a free consumption when the store was insufficient to hold out.

Now let anyone consider this problem in all its bearings, reflecting upon the enormous and fluctuating number of persons to be fed; the immense quantity and the variety of the provisions to be furnished; the importance of a convenient distribution of them, and the necessity of husbanding them discreetly; and then let him reflect upon the anxious toil which such a task would impose on a board of the most experienced and intelligent commissaries; who after all would be able to discharge their office but very inadequately.

Yet this object is accomplished far better than it could be by any effort of human wisdom, through the agency of men, who think each of nothing beyond his immediate interest—and combine unconsciously to employ the wisest means for effecting an object, the vastness of which it would bewilder them even to contemplate.

Early and long familiarity is apt to generate a stupid indifference to many objects, which, if new to us, would excite great admiration; and many are inclined to hold cheap a stranger who expresses wonder at what seems to us very natural and simple, merely because we

have been used to it. A New Zealander who was brought to England was struck with especial wonder, in his visit to London, at the mystery of how such an immense population could be fed, as he saw neither cattle nor crops. Many Londoners, who laughed at the savage's admiration, would probably have been found never to have thought of the mechanism which is here at work.

It is really wonderful to consider with what ease and regularity this important end is accomplished, day after day, and year after year, through the sagacity and vigilance of private interest operating on the numerous class of wholesale and retail dealers. Each of these watches attentively the demands of his neighborhood, or of the market he frequents, for such commodities as he deals in. The apprehension, on the one hand, of not realizing all the profit he might, and, on the other, of having his goods left on his hands, either by his laying in too large a stock, or by his rivals' underselling him—these, acting like antagonistic muscles, regulate the extent of his dealings, and the prices at which he buys and sells. An abundant supply causes him to lower his price, and thus enables the public to enjoy that abundance; while he is guided only by the apprehension of being undersold; and, on the other hand, an actual or apprehended scarcity causes him to demand a higher price.

For doing this, corn-dealers in particular are often exposed to odium, as if they were the cause of the scarcity; while in reality they are performing the important service of husbanding the supply in proportion to its deficiency. But the dealers deserve neither censure for the scarcity which they are ignorantly supposed to produce, nor credit for the important public service which they in reality perform. They are merely occupied in gaining a fair livelihood. And in the pursuit of this object, without any comprehensive wisdom, or any need of it, they co-operate, unknowingly, in conducting a system which, we may safely say, no human wisdom directed to that end could have conducted so well.

B. PECUNIARY COMPETITION

96. Economic Activity as a Struggle for Existence[3]

BY ARTHUR FAIRBANKS

The conditions of struggle are all but universal in society. Even writers who regard society as an organism point out a degree of competition between different functions and organs in the animal organism, and profess no surprise that with the less rigid structure

[3]Adapted from *Introduction to Sociology*, 239–254 (1896).

of society, this competition becomes a far more important phase of all activity.

It needs no second glance to satisfy one that the economic activity of society may fittingly be called a struggle. Follow some industrial product from the factory up to the time when it is consumed. The manufacturer of cotton goods chooses between competing places for his factory; the makers of his machinery are struggling with each other to produce most economically engines, looms, etc., that are best adapted to his work; raw products he buys from sellers competing in the open market; labor he hires from among men who bid against each other for his work; transportation companies compete with one another in cheaply transferring his goods to market; and, in the market, seller is struggling with seller for the privilege of a sale with profit; buyer and seller bargain together to agree on a price. The present century has seen barrier after barrier swept away, till the whole world enters more or less freely into the one struggle; family and social distinctions are being obliterated in the industrial world; customs and laws in restraint of trade have been set aside.

The result of this sudden expansion of the industrial struggle is to force more clearly on thinkers the fact that civilization moves, not away from struggle, but to new forms of struggle. And the efforts to deal with the many difficulties which have arisen from this sudden change make it clear that it is not by seeking to prevent struggle, but by modifying its forms, that progress will be made. Laborers who suffered in an unequal struggle have won their rights by combining and entering the struggle as a larger unit. Groups of coöperative buyers have united to do away with the petty competition of the retail store, by elevating competition to a more reasonable plane. Nor are the greatest monopolies of the day altogether free from the higher forms of pressure in the economic struggle, uncontrolled as they may seem for a time.

The change in the form of the struggle modifies the competing units. More in evidence just now is the struggle between groups determined by class lines than groups determined by territorial lines. With the passing of the dominance of individualism, the struggle, apparently, is between larger groups. The truth is that a simple struggle is being succeeded by a complex struggle between different kinds of units. The individual is freed from numerous restrictions that used to hamper him, but the competition in which he engages is limited in a new way. Not only does increasing differentiation effectively limit the number with whom he competes, but much of the burden of the struggle is shifted from the shoulders

of the isolated individual to the group of which he is a member. Group competes with group, and the individual competes only with the other members of the group. The town removes many phases of the struggle for existence from each individual, the state removes many others; but within each political unit other ends call out the energy of the individual citizen. The manufacturer, in competing with other manufacturing groups, removes from his workmen much of the stress of economic struggle, but, within definite lines, the workman has only the more bitter a battle to fight.

But no group organization has or can eliminate personal competition between the members of a group. The actual outcome of the social process in which the fit tend to survive and multiply depends largely upon the organization of a given society. With the removal of rigid barriers there has developed a more or less definite apparatus for weeding out the unfit, and advancing those who are fit for better things. In the contest for industrial position, the laborer who can most economically perform a given task is the only one to whom an employer can afford to give the task. Each industrial crisis constitutes a severe test for everyone in the industrial world; the less fit are thrown out of their place in the industrial world, wherever it may be. The so-called "out-of-work" class simply consists of those whose work cannot be utilized. During periods of industrial expansion, the man of wisdom, skill, and vigor expects advancement, because new positions are being created for which these are the only recommendation. Always, everywhere, this contest for individual position is going on.

70. Competition and Organization[4]

BY CHARLES H. COOLEY

It seems to me that the fundamental point always touched upon in questions of competition is the meaning of competition in relation to organization. Now what is the meaning of competition in this regard? I take it to be simply an organizing process. The world is full of various agents. These agents in one way or another are continually getting displaced in the social structure, by the death of individuals, the decay of groups and systems, etc. Some method must be found of constantly building up the organization. If there is any other method of doing this than competition in the broad sense I do not know what it is. There must be some means of com-

[4]Adapted from an article in the *American Journal of Sociology,* XIII, 655–658 (1907).

paring and selecting the agents and adapting them to their work.

Competition is not merely a cause of organization; it is also an effect. As everywhere else in the interdependent social system, we find all influences interacting, each a cause of change in the other. Organization is a cause in that it furnishes motives and standards and methods of competition. These things are determined by custom, by law, by public opinion, by the inherited ideas of men.

Taking these points for granted, we come to the question, What is the matter with existing competition? I should say the matter is simply that existing competition shares in the prevailing disintegration of social structures. We are all familiar with this disintegration. It is chiefly, though not entirely, economic in its origin. The result is that the standards, the methods of competition, today, are very far from being what the most enlightened human nature would desire to have them. They are what is sometimes called "individualistic" in the bad sense of the word.

Perhaps I can best indicate this by taking an example. Let us suppose that there is a ship sailing on the seas, properly manned with officers and crew. Now, here is an organization. It may not be apparent at first that competition is going on in this little society; but it is. If a mate does well, he may very likely get appointed captain on the next cruise, or his wages may be raised. Or again the ship may be competing with another ship across the ocean and various advantages may accrue if it succeeds. Here is well-ordered competition in which merit succeeds. That is to say, the test of success is something for the good of society, namely, the welfare of the ship and of commerce. But suppose that the ship quite unexpectedly in the dark runs upon an iceberg. The captain and the crew are thrown into the water. The society immediately and entirely disappears. The individuals are all struggling in the water, and a new kind of competition takes place. From the good of the ship and society, it falls back on the animal instinct for self-preservation. Man becomes a mere brute under these circumstances. The customs and modes of thought that keep society on a proper level are destroyed.

Something analogous to this is widely prevalent in present society. To pass on to the question as to how competition may become better: It is by building up the social organization through competition itself and raising the level of that competition by the ordinary methods of human endeavor.

71. The Beneficence of Competition[5]

BY CHARLES KINGSLEY

Sweet competition! Heavenly maid!—Now-a-days hymned alike by penny-a-liners and philosophers as the ground of all society—the only real preserver of the earth! Why not of Heaven, too? Perhaps there is competition among the angels, and Gabriel and Raphael have won their ranks by doing the maximum of worship on the minimum of grace? We shall know some day. In the meantime, "these are thy works, thou parent of all good!" Man eating man, eaten by man, in every variety of degree and method! Why does not some enthusiastic political economist write an epic on "The Consecration of Cannibalism"?

72. Competition and Selfishness[6]

BY S. J. CHAPMAN

I must reiterate, in order that there may be no mistake, that modern analytical economics neither assumes nor advocates selfishness. But without relegating sentiment to Saturn, we may hold that the affections do not directly enter into most business transactions. "Oh 'tis love, 'tis love, that makes the world go round," asserted the duchess in *Alice in Wonderland.* "Somebody whispered," said Alice, "that it's done by everybody minding his own business." However, among the impulses which are the motive power of business activities, the affections may play a large part indirectly. A man may work his best to make as much as possible in the interests of his family or friends, or even for philanthropic purposes. Finally it must not be imagined that, in the absence of altruistic motives, a man who works his hardest for success must be sordid. The passion of great business leaders is commonly quite other than that of the miser. Because money provides the counters which measure commercial triumphs, we are apt to go astray in our analysis. They who play cards for cowries are not mastered by a passion for cowries.

73. The Ethics of Competition[7]

BY J. A. HOBSON

The consciousness of social service as a stimulus to work is not inconsistent with competition. The artist who labours to express

[5]From "Cheap Clothes and Nasty," in *Alton Locke,* lxviii–lxix (1850).

[6]From *Outlines of Political Economy,* 17–18 (1911).

[7]Adapted from *The Industrial System,* 307–308 (1909).

himself to others can only succeed on condition that he keeps before his mind these others: mere self-expression is not art at all. Though, therefore, the artist may be working for gain, and may be conscious of his competitors, the interest in his work and his capacity to do it involves some regard for the public. The same applies also to the artisan so far as his manipulation of material involves conscious regard for its utility, and therefore consideration of the needs of the consumers. So, too, with the professions; however keen the rivalry of professional men to get employment may be, the nature of the work they do involves the detailed operation of disinterested motives leading them to value their work for its real social utility rather than for the gain it brings them. This is the well-recognised difference between a profession and a trade, which has always underlain the lower esteem in which tradesmen and the trading spirit have been held.

It is, indeed, in commerce, and primarily in retail trade, rather than in manufacture or any branch of production, that the ethics of competition appears to do most damage, the reason, of course, being that in the dealing processes antagonism of human interests is sharpest, and the conscious energy of dealers is most confined to the pursuit of personal profit.

In most manufactures, though the employer is not in business "for his health," but primarily to make profits, the skill and intricacy of the practical operations which he conducts absorb much of his attention, and pride in the character of his business and the equality of its products dignifies his conduct. Just in proportion as he is not forced to concentrate his thought and feeling upon the art of getting business away from other firms and pushing his claims against theirs in the market, does his work take conscious shape in his mind as the social function which it really is. Just in proportion as the competitive activities assume prominence is he compelled to sink this social feeling, to push his goods in conscious rivalry with those of other firms, and to cultivate those arts of sweating, adulteration, and deceit, which seem necessary to enable him to sell goods at a profit.

Such considerations indicate that the moral economy of competition is not simple or uniform: where it takes shape in the rivalry of Euripides, Aeschylus and Sophocles to win the favour of an Athenian public for their respective dramas it may act as a direct incentive of the highest form of social wealth; where it operates among struggling grocers in the same street it may mean starved assistants, short weights and doctored goods.

74. State Determination of the Plane of Competitive Action[8]

BY HENRY C. ADAMS

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? Wherever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are of course exceptions to this rule. But these exceptions do not vitiate it. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low prices, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result must be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those forces that must ultimately result in race-deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being, are but words to him. He measures success wholly by the rate of profit. If now the state stand as an unconcerned spectator, the

[8]Adapted from *The Relation of the State to Industrial Activity,* 39–47 (1887).

nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of a great majority of men who compose it.

But what, it may be asked, can the state do in the premises? The state has done much and can do more. That code of enactments known as "factory legislation" is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which could be maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no child shall be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed, but competition is not restricted. As the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action between competitors, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

We have all of us, doubtless, heard the claim that the state is a moral agency; that it is imposed with moral duties. For a number of years after this phrase came to my notice, it presented to my mind no distinct meaning. It seemed to me to cover the philanthropic purpose of shallow intellects, and to be most frequently used by men who knew not the way of guile nor anything else for certain. But properly understood this phrase contains a deep truth of social philosophy. It does not mean that the law is a schoolmaster coercing men to be good, nor that it is the depository of a social ideal to be admired; but, on the contrary, it means that the law is an agency for the realization of the higher ideals of men by guarding them from that competition which would otherwise force them to a lower plane of action, or else force them out of business. In performing such a duty the state performs a moral function, for it regulates competition to the demands of the social conscience. Under the guiding influence of such a thought the immediate interests of the individual may be made to coincide, in some degree, with the fundamental interests of society, and thus, by disregarding the dogma of laissez-faire, the fundamental purpose of those formulating the doctrine is in part realized.

C. PRICE-FIXING BY AUTHORITY

75. The Statute of Laborers[9]

Edward to the Reverend Father in Christ, William, Archbishop of Canterbury, Primate of all England, greeting. Because a great part of the people, and especially of workmen and servants, have lately died in the pestilence, many seeing the necessities of masters and great scarcity of servants, will not serve unless they may receive excessive wages, and others preferring to beg in idleness rather than by labor to get their living; we, considering the grievous incommodities which of the lack especially of ploughmen and such laborers may hereafter come, have upon deliberation with the prelates and the nobles and learned men assisting us, with their unanimous counsel ordained:

That every man and woman of our realm of England, of what condition he be, free or bond, able in body, and within the age of sixty years, not living in merchandising, nor exercising any craft, nor having of his own whereof he may live, nor land of his own about whose tillage he may occupy himself, and not serving any other; if he be required to serve in suitable service, his estate considered, he shall be required to serve him which shall so require him;

[9]Adapted from *Statutes of the Realm,* 307–308 (about 1349).

and take only the wages, livery, meed, or salary which were accustomed to be given in the places where he oweth to serve, the twentieth year of our reign of England. Provided always that the lords be preferred before others so in their service to be retained; so that, nevertheless, the said lords shall retain no more than necessary for them. And if any man or woman being so required to serve will not do the same, and that be proved, he shall immediately be taken to the next gaol, there to remain under straight keeping, till he find surety to serve.

If any reaper, mower, other workman or servant, retained in any man's service, do depart from the said service without reasonable cause or license, before the term agreed, he shall have pain of imprisonment; and no one, under the same penalty, shall presume to receive or retain such a one.

No one, moreover, shall pay or promise to pay to anyone more wages than was accustomed; nor shall anyone in any other manner demand or receive them, upon pain of doubling of that which shall have been so paid to him who thereof shall feel himself aggrieved; and if none such shall sue, then the same shall be applied to any one of the people that will sue. And if lords presume in any point to come against this present ordinance, then suit shall be made against them. And if any one before this present ordinance has covenanted with any so to serve for more wages, he shall not be bound to pay more than was wont; nor, under the same penalty, shall he presume to pay more.

Also, saddlers, skinners, white tawyers, cordwainers, tailors, smiths, carpenters, masons, tilers, shipwrights, carters, and all other artificers and workmen, shall not take for their labor and workmanship above the same that was wont to be paid to such persons the said twentieth year.

Also, that butchers, fishmongers, innkeepers, brewers, bakers, poulterers, and all other sellers of all manner of victuals be bound to sell the same victuals for a reasonable price, having respect to the price that such victuals are sold at in the places adjoining, so that the said sellers shall have moderate gains; and if any sell the said victuals in any other manner, and thereof be convicted, he shall pay the double of the same that he so received to the party injured.

And because that many strong beggars, as long as they may live by begging, do refuse to labor, giving themselves to idleness and vice, and sometimes to theft and other abominations; none upon the said plan of imprisonment shall, under the color of pity or alms, give anything to such, so that thereby they may be compelled to labor for their necessary living.

76. Price-Fixing by Commission[10]

BY MARTIN LUTHER

The merchants have a common rule among them, it is their motto and the bottom of all their practices: I shall sell my wares as dear as I can. This I hold to be my right. But it means making room for greed and opening the door and window of hell. What else is this than saying: I will give no heed to my neighbor, if only I may have my profit and greed full; what do I care if it brings my neighbor ten ills at once? So you see how this motto goes so straight and shamelessly against not only Christian love, but against natural law as well. What should there be in merchandising but sin where such a wrong is the motto and rule? By this token merchandising can be nothing else than stealing and plundering others of their own.

For on this ground, when the rogue's eye and the greedy-gut mark that anyone must have their ware, they make their use and gain out of it. They look not at the worth of the ware, nor at the value of their service, nor their risk, but simply at the need and want of their neighbor—not to help him, but to use these for their own advantage, and to put up their ware which they would leave at a low price if it were not for the necessity of their neighbor. And so through their greed the ware must have a price as much higher as the need of the neighbor is greater. Tell me, is not thus the poor man's need sold to him with the ware?

It should not be: I will sell my wares as dear as I can and please, but thus: I will sell my wares as dear as I should, or is right and proper. For thy selling should not be a work that is within thy power and will, without all law and limit, as though thou wert a god bounden to no one; but because thy selling is a work that thou performest to thy neighbor it should be restrained within such law and conscience that thou mayest practice it without harm and injury to thy neighbor.

Asketh thou then: Well, how dear shall I sell it, then? How shall I strike what is right and just so that I may not overreach my neighbor? Answer: That is indeed framed in no speech or writing; no one hath yet undertaken to fix the price of every ware. The reason is this: Wares are not all alike; one is brought farther than another, one takes more outlay than another, so that in this manner all is uncertain and must remain so, and nothing can be fixed, as little as one can fix one certain city whence they shall be brought, or a set outlay for all, since it may happen that one and the same ware,

[10]Adapted from the address on "Trade and Usury," in *The Open Court*, XI, 18–20. Translated by W. H. Carruth. Copyright (1524).

from one and the same city and brought on one and the same road, may cost more today than a year ago by reason of the road and the weather being worse, or some other chance that causes more outlay than at another time. But it is just that a merchant should gain so much on his wares that his outlay, his pains, and risk should be made good. Who can serve or work for nothing? This saith the Gospel: "A laborer is worthy of his hire."

But, not to pass over the matter in silence, the best and safest way would be that worldly authority should appoint and ordain in this matter sensible, honest people who might consider all wares and the outlay upon them and set accordingly the meet and limit of their value, so that the merchant might then add his service and get his decent living from it; as indeed in some places the price of wine, fish, bread, and the like is set. But we Germans are too busy with drinking and dancing to give heed to such regulation. Since, therefore, such regulation is not to be hoped for, the next best counsel is that we value the wares as the common market gives and takes, or as the custom of the country is to give and take; for in this as the saw holds good, "Do as others do, and thou'lt do no folly."

77. The Futility of Price-Fixing[11]

BY JOHN WITHERSPOON

If you make a law that I shall be obliged to sell my grain, my cattle, or any commodity, at a certain price, you not only do what is unjust and impolitic, but with all respect be it said, you speak nonsense; for I do not sell them at all: you take them from me. You are both buyer and seller and I am the sufferer only.

I cannot help observing that laws of this kind have an inherent weakness in themselves; they are not only unjust and unwise, but for the most part impracticable. They are an attempt to apply authority to that which is not its proper object, and to extend it beyond its natural bounds; in both which we shall be sure to fail. The production of commodities must be the effect of industry, inclination, hope, and interest. The first of these is very imperfectly reached by authority, and the other three cannot be reached by it at all. Accordingly we found in this country, and every other society which ever tried such measures found, that they produced an effect directly contrary to what was expected from them. Instead of producing

[11]Adapted from "An Essay on Money," in *The Works of the Rev. John Witherspoon,* IV, 224–226. 2d ed. (1802).

moderation and plenty, they uniformly produced dearness and scarcity. It is worth while to observe that some of our legislatures saw so far into the matter as to perceive that they could not regulate the price of commodities, without regulating the price of the industry that produced them. Therefore they regulated the price of day laborers. This, however, though but one species of industry, was found to be wholly out of their power.

There are some instances mentioned at the time when these measures went into vogue, which superficial reasoners supposed to be examples of regulating laws attended with good effects. These were the regulation of the prices of chairs, hackney-coaches, and ticket-porters in cities, public ferries, and some others. But this was quite mistaking the nature of the thing. These instances have not the least connection with laws regulating prices in voluntary commerce. In all these cases the persons who are employed solicit the privilege, obtain a license, and come under voluntary engagements to ask no higher price; so that there is as complete a free contract as in buying and selling in open shops. I am so fully convinced of the truth and justice of the above principles that I think, were it proper at this time, I could show that even in the most enlightened nations of Europe there are still some laws subsisting which work in direct opposition to the intention of the makers. Of this kind in general are the laws against forestalling and regrating. They are now indeed most of them asleep; but so far as they are executed, they have the most powerful tendency to prevent, instead of promoting full and reasonable markets. As an example of our own skill in this branch a law was passed in Pennsylvania in time of the war precisely upon this principle. It ordained that in all imported articles there should be but one step between the importer and consumer, and that therefore none of those who bought from the ship should be allowed to sell again. The makers of it considered that every hand through which a commodity passed must have a profit upon it, which would therefore greatly augment the cost to the consumer at last. But could anything in the world be more absurd? How could a family at one hundred miles distance from the seaboard be supplied with what they wanted? In opposition to this principle it may be safely affirmed that the more merchants the cheaper goods, and that no carriage is so cheap, nor any distribution so equal or so plentiful as that which is made by those who have an interest in it and expect a profit from it.

D. THE FUNCTION OF MIDDLEMEN

78. A Condemnation of Forestallers[12]

Especially be it commanded on the part of our lord the king, that no forestaller be suffered to dwell in any town,—a man who is openly an oppressor of the poor, and the public enemy of the whole community and country; a man who, seeking his own evil gain, oppressing the poor and deceiving the rich, goes to meet corn, fish, herrings, or other articles for sale as they are being brought by land or water, carries them off, and contrives that they should be sold at a dearer rate. He deceives merchant strangers bringing merchandise by offering to sell their wares for them, and telling them that they might be dearer sold than the merchants expected; and so by craft and subtlety he deceives his town and his country. He that is convict thereof, the first time shall be amerced and lose the things so bought, and that according to the custom and ordinance of the town; he that is convict the second time shall have judgment of the pillory; at the third time he shall be imprisoned and make fine; the fourth time he shall abjure the town. And this judgment shall be given upon all manner of forestallers, and likewise upon those that have given them counsel, help, or favor.

79. If Forestallers Had Their Deserts[13]

BY GEORGE WASHINGTON

It gives me great pleasure to find that there is likely to be a coalition of the Whigs in your State, and that the Assembly of it are so well disposed to second your endeavors in bringing those murderers of our cause, the monopolizers, forestallers, and engrossers, to condign punishment. It is much to be lamented that each State long ere this has not hunted them down as the pests of society, and the greatest enemies we have to the happiness of America. I would to God, that one of the most atrocious in each State was hung in gibbets upon a gallows five times as high as the one prepared by Haman. No punishment, in my opinion, is too great for the man who can build his greatness upon the country's ruin.

[12]Adapted from *Statutes of the Realm,* I, 202 (about 1269).

[13]From a letter to Joseph Reed, dated December 12, 1778, in *The Writings of George Washington,* VII, 282. Edited by Worthington Chauncey Ford.

80. The Function of the Middleman[14]

BY HARTLEY WITHERS

Anything that has been grown or made usually has to go a long way and pass through many hands before it comes into the possession of the man who finally eats it or wears it or otherwise consumes it. And every pair of hands through which it passes takes toll of it, that is to say, adds something to the price that the final consumer pays, or takes something off the profit that goes to the shareholders in the producing company, or off the wages that can be paid to the workers who made it.

Most of these intermediaries are necessary. It is easy to talk of doing away with the middleman, but when he is done away with he usually comes to life again in another form or under another name. The most clearly necessary intermediary is the transporter. There is also at least one merchant, a broker or two, and the shopkeeper who finally makes the retail sale to the consumer. Furthermore there is another chain of people who are just as essential as the transporters—namely the bankers, financiers, and bill-brokers, who find the credit and provide the currency to finance the movement of the stuff from place to place, and see to the consequent transfers of cash or credit.

Now we begin to see the reason for the difference, so startling at first sight, between, for example, the coal that is sold at the pit-mouth for 10*s*. to 12*s*. a ton, and costs us in London anything up to 30*s*. It occurs at once to all amateur economists that it would be an enormous saving if we could do away with all these middlemen and divide their gains between the producer, his workers, and the consumer. Why should not the consumer buy his coal at the pit-mouth? So he could if he were there to arrange for its carriage, and, further, if he were prepared to buy a good round mouth-filling amount, not homeopathic doses of a ton or two at a time. Also he would only buy on the alluringly cheap terms one sees quoted in the papers if he contracted to take large quantities at regularly recurring intervals, so that the colliery company could be sure of disposing of its output. Further, he would have to pay for the carriage of the coal, and by the time he had done so he would find that there was a very big hole in the saving he thought he was going to effect by dealing direct with the producer.

Now, as the ordinary consumer could not possibly buy on the scale required unless he had a large amount of capital to sink in

[14]Adapted from *Poverty and Waste,* 115-118. Published by E. P. Dutton & Co. (1914.)

coal and a large area of space in which to store it, and as he would also have to run the risk of its deterioration before he could use it, he would at once have brought home to him three services which are performed for him by middlemen, and would have to be performed by him or somebody, as soon as he did away with the middleman. These services are: (1) wholesale purchase and retail selling—the fact that the merchant is prepared to take away the coal in big blocks and store it and sell it piecemeal to suit our convenience; (2) the provision of capital to bridge the gap in time between purchase and sale; (3) the taking of the risks of deterioration in quality if the coal is not sold fast enough, and of a spell of warm weather which may knock a shilling or two off the price before it is sold.

These services would have to be paid for even if we reorganized society on a socialistic basis.

81. Middlemen in the Produce Trade

BY EDWIN G. NOURSE

It is quite the fashion to impute to "middlemen" sole responsibility for the increases in prices which have recently occurred, and which together constitute what is usually referred to as "the high cost of living." In the words of the Massachusetts Commission on the Cost of Living, "A long line of commission men, produce merchants, jobbers, hucksters, retailers, and what-nots, simply passing goods from hand to hand like a bucket brigade at a fire, is not only inefficient and wasteful, but very costly. In these days a hydrant and a line of hose are wanted."

This is undoubtedly a vivid statement of the case, but like most figures of speech, leaves something to be desired in the way of accurate analysis. It is certainly not more than a half-truth to speak of middlemen as "simply passing goods from hand to hand." The middleman performs four distinct functions, whose value to both producers and consumers should not be overlooked.

In the first place, the middleman provides a market. He organizes the demand for all the various sorts of produce and brings it into effective touch with the producer, who is commonly in no position to find it for himself. The latter's farm or orchard is located with reference to advantages for production, and therefore far away from the markets in which he must sell his product. His abilities are too specialized in the direction of agricultural proficiency to give him the necessary commercial expertness. The time of harvesting the crop is generally the busiest season of the year, leaving the grower little time to devote to the intricate details of marketing his

product. Finally, there are comparatively few producers who have a sufficient volume of goods to enable them to ship in carload units, and yet they must move in such quantities, if they are to get to market at all.

A kindred function is that of "equalization." Supplies, on the one hand, are more or less unreliable, fluctuating in quantity and quality according to the caprice of weather, pests, floods, and human nature; and demand, on the other hand, is no less arbitrary, spasmodic, and wayward. But if some central agency gathers these supplies together, classifies them into lots of appropriate size, and directs them into channels where demand is at the moment most keen, all parties are benefited. A large part of consumers' wants cannot be put in the form of definite orders some time ahead and only a small portion of supplies can be definitely promised in advance. Accordingly a clearing-house is needed, where current supplies can be offset against the day's demand.

This consideration looks over into the second division, namely, the middleman's service to the consumer. To only a small extent is the modern consumer able to connect himself directly with sources of supply. He possesses neither the facilities nor the knowledge. His elaborate market-basket is filled from all over the world, from places he wots not of, and yet is replenished daily from stocks which have been brought within his daily reach. Commercial agencies of supply are scouring the world for better goods and constantly seeking better means of bringing them to the place of use and keeping them in the best condition until the time of use.

Alongside of these commercial activities of the produce dealer is a third class of service which may be called "technical"—the actual handling of the goods, storage, repacking and regrading, culling, sorting, and fitting to meet needs or whims of the buying public. It is the oft-repeated comment of the dealers that most people buy, not according to reason, but according to their prejudices; not to get nourishment, or flavor, or real excellence, but to please the eye. The extra labor and material thus necessarily piles up extra costs.

Storage is partly a technical service, but it is charged for on a time basis and so comes also under the head of financing services. This fourth class of the middleman's services is of great importance and yet is entirely overlooked by those who regard him as engaged in merely passing goods from hand to hand. When the householder buys his apples or potatoes only as he needs them, and pays for them only at the end of the month, after they have been consumed, he should not forget that someone has financed that portion of his living expenses. But the dealer goes farther back and finances the

transportation and perhaps the growing of the crop. This service doubly benefits the producer, because without it producers would be crippled, supplies curtailed, and prices advanced. This is not to say that producers may not in time arrange to finance their own operations, but so long as the middleman is called upon to do it, he is undoubtedly performing a service, which should not be overlooked when we are balancing his account with the public.

E. SPECULATION

82. The Gamble of Life[15]

BY JOHN W. GATES

Life is a gamble. Everything is a gamble. When the farmer plants his corn he is gambling. He bets that the weather conditions will enable him to raise a good crop. Sometimes he loses, sometimes he wins. Every man who goes into business gambles. Of course the element of judgment enters in, but the element of chance cannot be ruled out. Whenever a man starts on a railroad journey, it's a gamble whether he ever reaches his destination. All life is a gamble, you see.

83. The Twilight Zone[16]

BY HARRY J. HOWLAND

The Stock Exchange provides facilities which are used for three kinds of transactions—investment, speculation, and gambling. If the transactions on the floor belonged wholly to the first class, the Exchange would be unqualifiedly good. If they belonged wholly to the last class, it would be unqualifiedly bad. It is the middle term of this trio which falls on debatable ground. Investment needs no defense; no defense will save gambling from condemnation. But speculation is in a very different case from either. Speculation is a dog with a bad name. It is possible to gibbet it along with gambling and loose living.

But is the verdict just? Is speculation an unsocial practice? Is the speculator, like the gambler, an enemy of society, a drone in the hive, contributing nothing to the general welfare? It is a convincing answer to this question that we seek.

[15]Quoted in *Current Literature,* LXI, 266 (1910?).

[16]Adapted from "Speculation and Gambling," in *The Independent,* LXXVI, 15–17. Copyright (1913).

The three processes which go on upon the floor of the Stock Exchange—investment, speculation, and gambling—are often inextricably mixed. It is often practically impossible to assign any particular operation without question to one of these three classes.

Investment, for instance, is sometimes semi-speculative in character. Here is a man who has saved a thousand dollars and wishes to lay it aside against a future need. There are many ways in which he may invest it on the Stock Exchange. He may buy government bonds with it. But in this case there is no chance that his principal will be increased to any degree when he comes to sell his bonds. This is pure investment.

Or he may purchase a stock which, while it pays a good rate of dividend with regularity, is subject to fluctuations in price. Here he has a paying investment with the possibility of an increase in principal when he sells out. The stock may turn out, not only a good investment, but a good speculation.

Or he may buy a stock which at present is paying no dividend at all, but which is selling at an extraordinarily low price. The value of the stock is all potential. The element of investment is totally absent from such a purchase. So investment and speculation are inextricably mixed in all kinds of operations on the Stock Exchange. In some, investment predominates; in some, speculation. In many the mixture is of nearly equal parts.

Again, the line between speculation and gambling on the Stock Exchange is hazy and indistinct. There the twilight zone is broad and clouded. This is not because any of the operations on the Exchange are in form or in essence gambling operations, as betting on a horse race or playing poker. The truth is that Stock Exchange speculation is not gambling, but it leads to many of the same evils to which gambling leads. This statement opens up highly debatable ground. Probably the most common view is that stock speculation might more properly be called stock gambling, that speculating on the price fluctuations of stocks is no different from gambling on the fall of cards or the gyrations of the roulette ball. But there are two essential differences, while at the same time there is one essential likeness.

Speculation differs from gambling in process. In a gambling transaction if one party wins, the other party must lose. In speculative transactions it is no more necessary for one party to lose if the other party wins than it is in speculative purchase of land or potatoes or eggs. The transactions of the Stock Exchange are sales and purchases, bona fide, actual, complete. In each transaction each party to it gives what he wants less for what he wants more. The

judgment of either or both may be bad. But it is no less a real bargain, in which each side gets value received for what he gives. Gambling, on the contrary, does not involve an exchange of values. It is a contribution of values to a central fund, the ultimate ownership of the fund to be determined by chance. True, in gambling each contributor receives a chance of receiving all the contributions; but he also runs a risk of losing his whole contribution. Thus the speculator receives a value in return for his stake, while the gambler does not. For the former it may not be the value that he thinks he is getting, and the value actually received may decline. But that is true of everybody who buys a commodity with a view to its increase in value, from raspberries to skyscrapers. The fact that a man's judgment as to future values may prove unsound does not throw him into the class of gamblers.

Nor does the fact that speculation on the Stock Exchange is largely carried on through tradings on margins and short-selling make it gambling. Both processes are common under other names throughout the commercial world. Trading on margin is buying stock, and making only a small cash payment at the time of purchase. It differs in no essential particular from buying furniture on the instalment plan, from buying land on mortgage, and from buying books by subscription. It merely involves the use of personal credit backed by security.

Short-selling is selling securities which one does not possess at the moment in the expectation and belief that they will go down in price. This action is no more gambling than that of an automobile manufacturer in contracting to sell an automobile before he has in his possession any of the materials out of which it is to be made is gambling.

Speculation and gambling, again, differ widely in the service which they render to the community. Gambling renders none. The gambler is a drone in an economic hive, a parasite in the industrial organism. Speculation renders a real, a valuable, and indeed an indispensable service. The Stock Exchange brings the investor and the enterprise together. It directs capital into channels of investment which the owners of the capital would never have been able to find for themselves. The speculator performs an important function for the investor by forecasting the future. Speculation is the struggle of intelligence, armed with a knowledge of the ascertainable conditions, against the blind workings of chance.

The essential likeness between gambling and speculation lies in the fact that both are attractive to those who have no business to indulge in them. Men will gamble who cannot afford to gamble, who have no skill at the game they seek to play. So, too, men will enter

into speculation lacking adequate resources, adequate knowledge, and adequate judgment. For just as gambling is attractive because it holds out glittering hopes of making money without labor, so speculation is attractive because the prizes for the successful are out of all proportion to the effort expended or to the stake put up.

The main evil which accompanies speculation lies in this participation in it of the unfit. It is not speculation in itself that is an evil, but the improper and unwise use of the speculative faculties by the ignorant and the unskilled, the insufficiently provided, the weak in judgment.

84. The Ethics of Speculation[17]

What is speculation? And how does it differ from legitimate business? A miller knows in the fall that next summer he will need a million bushels of wheat. He studies the wheat conditions throughout the world, forms the best judgment he can as to the probable supply and demand, and the prospective market price, then sends out an agent to contract with the farmers to give him next summer the wheat he will need at the price he is willing to pay. This is a legitimate business transaction, advantageous to both miller and farmer. The fact that the miller may miscalculate, and as a result make an unexpected profit or suffer an unexpected loss does not make the transaction a speculation.

A broker, who has no mill and has no use for any wheat, makes a similar calculation; he sends out his agent, buys in the fall of the farmers at an agreed price to be paid on delivery the next summer, expecting to sell the wheat in turn to the millers. This may be a legitimate business transaction. It is advantageous to farmer and miller. And in modern complicated business the service of the broker is often indispensable.

A speculator makes a somewhat similar investigation of probable demand and supply. He knows what the average crop for the last five years has been. He knows that there is an iscreasing demand for wheat as a food product all over the world. He gets together some cash and more credit, and plans to buy up the whole wheat supply in the United States; if necessary, the whole wheat supply of America. If he can succeed in doing this, he will have a monopoly, and can indefinitely increase the price. This is not quite so impossible as it may seem at first sight. He does not have to buy all the wheat; if he owns most of it, he can trust the owners of the rest not greatly to undersell him, and thus can largely determine the market

[17]Adapted from an editorial in *The Outlook,* XCII, 14–16. Copyright (1909).

price. He does not have to maintain the highest price for any great length of time; he has only to keep up his price until the date at which he has agreed to sell, and can often sell part before that time at a price sufficient to guard himself against loss. He does not have to pay cash for his wheat. He has only to contract to pay at a future day, and meantime, to raise money enough, called a margin, to save from loss the man of whom he is buying it, in case the price declines below the amount which he has agreed to pay for it.

But the speculator is not alone. Others are associated with him in his endeavor to obtain control of the wheat in the United States. There are also speculators who believe that this attempt will fail; and who are leagued together to make it fail. The former, in the jargon of the market, are called bulls; the latter are called bears. The bears agree to sell wheat on the first of May at a fixed price; the bulls agree to buy the wheat at that price. The bulls attempt to make the market price on the first of May as high as possible; the bears attempt to make it as low as possible. But the bears have no wheat to sell and do not expect to have any; and the bulls do not want any wheat and do not expect to buy any.

What actually happens is this: Mr. Bear agrees to sell, and Mr. Bull agrees to buy, a thousand bushels of wheat on the first of May at one dollar per bushel. But on the first of May the market price of wheat is $1.10 a bushel. Mr. Bear, therefore, would have to spend $1,100 to buy the thousand bushels of wheat which he had agreed to sell to Mr. Bull for $1,000. Instead of doing so, he pays Mr. Bull $100. If, on the other hand, the price of wheat has fallen to ninety cents per bushel, Mr. Bear can buy for $900 the wheat for which Mr. Bull has agreed to pay him $1,000. In that case Mr. Bull pays Mr. Bear $100.

No wheat is actually bought and sold; no wheat passes from one to the other. Under guise of the contract to buy and sell, these two men, Mr. Bull and Mr. Bear, have simply made a bet as to the price of wheat on the first of May. The amount of the bet to be paid depends upon the difference between the actual market price on the first of May and the stipulated dollar a bushel.

If the reader asks, How can a bet between two dealers affect the price of wheat? The answer is, It cannot. But when hundreds of men are excitedly offering to buy wheat and other hundreds to sell wheat, and these offers to buy and sell include millions of bushels that have no existence, and the bets upon the price of wheat reach millions of dollars, the result is to create an artificial demand and an equally artificial supply, which determine the market price of such wheat as is stored in the warehouses.

The transaction is of no benefit to anyone except the successful gambler. It does not benefit the farmers; for they are interested in having a steady price for their wheat, not a fluctuating price, which promises a great gain today and a serious loss tomorrow, and compels them to study the gambler's market if they would get a benefit of the prices, a study for which they have neither the time nor the facility. It does not benefit the millers, who might judge what the prices of next season's wheat will be, if it were dependent on supply and demand as regulated by natural causes, but cannot judge if it is made dependent on the tricks and chances of a great gambling operation.

Gambling with breadstuffs is a great deal worse than gambling with cards or dice; the gambling carried on on the Produce Exchange, than that carried on in the gambling hells of New York City or in the Casino at Monte Carlo. Private gambling injures only the gamblers and those immediately connected with them, and it demoralizes the few hundreds of occasional onlookers. The private gambler gets the money of his fellow-gambler for nothing, and, if the game is honestly played, gives his fellow-gamblers in return a chance to get his own money for nothing. But the public gamblers play their game with the property of their wholly innocent fellow-citizens. They gamble with the wheat-fields of the farmer, the flour-barrels of the miller, the bread loaves of the baker and the housekeeper. There is not a reader of these lines in America but may have suffered some injury from the gamblers in the Chicago wheat-market; and the whole country looks on at the gigantic game, and hundreds of thousands of fascinated spectators are demoralized by the spectacle. These gamblers are not robbers, for they are not taking our property by violence, but they are taking it without our consent and without giving us any return for it.

85. The Utility of Cotton Futures[18]

BY ALFRED B. SHEPPERSON

The opinion held by many that the transactions in "futures" are almost entirely for speculation is very erroneous. The buying and selling of cotton "futures" is absolutely essential to the successful prosecution of the business of cotton manufacturers and cotton dealers as at present conducted.

[18]Adapted from a pamphlet entitled *An Exposition of the Methods of Business in Cotton Futures as Conducted in the New York, New Orleans, and Liverpool Markets.* Published by Hubbard Brothers & Co., New York (1907).

Many cotton mills now sell their product of yarns and cloth for delivery many months in the future. To do this they must know the cost of cotton for months before it is manufactured. Unless the market for cotton "futures" avail, the only way to do this is to buy the actual cotton at the time the sale of yarns or cloth for future delivery is made. This would involve a large outlay of capital with the loss of interest on it, besides the expense of storage and insurance and loss of weight in the cotton.

Under the present methods, the cotton manufacturer can safely sell the product of his mills for delivery far into the future by buying "futures" to the extent of the raw material required, and then purchase the actual cotton as it is needed for manufacturing, and selling out his "futures" as he buys cotton of the quality to meet his requirements. If the price of cotton advances between the time of his purchase of "futures" and the date on which he buys the actual cotton, he will make a profit on the transaction in "futures" sufficient to make good the difference. If the price of cotton falls he will make enough on the actual cotton bought to cover the losses on his "futures." Thus, but for the facilities offered for buying "futures" in the manner indicated, the cotton manufacturer, who possesses only moderate capital, would be unable to sell his product except for quick delivery, without taking great risks of loss by an advance in the price of the raw material.

86. Hedging on the Wheat Market[19]

BY ALBERT C. STEPHENS

A Glasgow miller, in February, desires to purchase 100,000 bushels of California wheat to grind into flour. The price has been tending upward. He purchases this wheat, engages freight room, and arranges to have it shipped to Glasgow. The price and freight will make the wheat cost him in Glasgow about $1.07 per bushel. But the wheat will not arrive until September or October, five months away. By that time, following the Atlantic coast harvests, and with the then probable renewal of arrivals of Russian and Indian wheat, the Glasgow price might or might not be lower than $1.07. In order to insure himself against loss, the Glasgow miller sells 100,000 bushels of wheat for October delivery at New York. The California wheat arrives at Glasgow, but the price of wheat the world over has declined, and the miller finds that it has cost him two or three cents

[19]Adapted from "Futures in the Wheat Market," in the *Quarterly Journal of Economics*, II, 47–51 (1887).

a bushel more than the then ruling price. Under strictly old-fashioned methods, had he not sold 100,000 bushels of wheat at New York, he would find himself at a decided disadvantage in competition with millers who had not anticipated their wants as he had. But he is not so placed. When he found the market a few cents lower, he cabled an order to New York to buy 100,000 bushels for October delivery. At the maturity of his New York speculative contracts, he finds a profit about equal to the loss on his California transaction. Thus, owing to his protective future contract, he stands no loss, despite the drop in the price of wheat. Had he found a profit on his California wheat when it arrived—that is, had the price advanced after the grain left San Francisco—he would have covered his New York sale at a corresponding loss, thus leaving him situated as before. In this way, English millers and importers of wheat, buying in the United States, Russia, or elsewhere, habitually protect such purchases from fluctuations in prices, while in transit, by selling futures against them at New York or Chicago, and later by covering their contracts. When we consider the aggregate of wheat purchases made in this country, and remember that all of these sales are in time covered by corresponding purchases of wheat, and that in all cases these speculative sales and purchases call for the actual delivery of grain, we may gain some conception of the reasons why future sales make so large a total.

But these insuring or protecting sales and purchases are by no means confined to foreigners, who buy throughout the world and ship to Europe. One may also find ample illustration at home. A New York merchant buys 100,000 bushels of hard wheat at Duluth, and orders it shipped by vessel to Buffalo, to go thence to New York by canal. He does this, not because he wants the wheat for his own use, but because he believes that, in view of known or apparent market conditions, he will be able to sell the grain in New York at a profit. With a more primitive view, he would ship this grain, wait until it arrived, look for a purchaser, and, finding one, sell the wheat for the price current on the day of arrival—say, three weeks after he bought it. If at a profit, well and good; but if the price had declined, he would sustain a heavy loss, owing to the size of the shipment. But, nowadays, the New York merchant sells 100,000 bushels of spring wheat, September delivery, at Chicago, at the date of his Duluth purchase in August. When the wheat reaches Buffalo, the price has advanced, and the millers there want part of his consignment. He sells them 25,000 bushels, and buys 25,000 bushels of spring wheat at Chicago, September delivery, to make good the original quantity purchased. By this time he has also sold at New York 100,000 bushels, September delivery, to an exporter, and

bought 100,000 bushels more at Chicago, relying on the 75,000 bushels on its way and his ability to get 25,000 bushels more, before it is demanded, to keep his engagement. When the 75,000 bushels hard wheat reach New York, the price has declined fractionally; and the owner is enabled, in consequence, to purchase 25,000 bushels at a slightly better price, relatively, than he paid in Duluth, selling 25,000 coincidentally at Chicago for September delivery. He lost on his Duluth purchase and on the 25,000 and 100,000 bushel purchases at Chicago, and on the 25,000 bushel purchase at New York. But he made rather more than corresponding gains through his sale, spot delivery, of 25,000 bushels at Buffalo, including profits on his sales of 225,000 bushels for September delivery at Chicago and New York, so that he gains on sales of 250,000 bushels, and loses on the purchases of 250,000 bushels. The transaction, as a whole, is not very profitable; but millers at home and abroad get wheat at the lowest market price on the dates of purchase, and the merchant whose sagacity, energy, and foresight led him to make a purchase, even when price conditions were unfavorable, is able to protect himself from excessive loss, without depressing the price to the original holder, and without having an incentive unduly to advance the price to the consumer.

87. The Ups and Downs of Securities[20]

BY FRANCIS W. HIRST

In the first place the value of a security depends mainly upon a quality which a bale of cotton or a ton of coal does not possess. It is either actually or potentially interest-bearing. This quality is visible in a bond with coupons attached. A bond like that bought by subscribers to a Prussian state loan will have attached to it quarterly or half-yearly coupons, which can be cashed in almost any great centre of finance. If the government promises to redeem the bond at the end of a definite period at par, at its maturity the bond will be worth par. In the meantime it will rise and fall according to the conditions, first of German credit, secondly of the international rate of interest. But these tendencies may be wholly or in part counteracted by antagonistic movements of an international character, for instance, a great war which destroys a vast amount of capital and absorbs vast quantities of savings. But the Prussian bond is not likely to fluctuate much, and the limits of its fluctuations will be the more restricted the more nearly it approaches its maturity. Thus

[20]Adapted from *The Stock Exchange*, 199–210. Copyright by Henry Holt & Co. (1911).

the value of a security depends mainly upon (1) the rate of interest, (2) the safety of the principal, and (3) the likelihood of the principal or the rate of interest either rising or falling. These are the main causes of a rise or fall in securities.

But the business of the Stock Exchange operators is to endeavor to forecast and discount in advance the natural fluctuations of intrinsic value. In the old days before the telegraph, fortunes were made by getting early information, or spreading false information of victories and defeats, which would enhance or depress the price of stocks. The first Rothschild laid the foundations of his immense fortune by getting early news of important events. Nowadays the principle is still the same, but the art of anticipation has been made much more doubtful and complicated. Telegraphs and telephones are open to all. What everybody reads in his morning paper is of no particular use to anybody in a speculative sense. Besides, many foreign governments keep large funds in London and Paris for the express purpose of supporting the market. Hence in the market for Government bonds, big movements are rare.

When we come to the prices of railroad and industrial stocks the causes of movement are much more difficult to detect, and the possibilities of making large profits by inside knowledge is much greater. The newspapers may be the conscious or unconscious tools of the manipulators. In new countries the banks are likely to be a working part of the speculative machinery. Thus in the United States those who use great fortunes in finance frequently have a controlling interest in a bank. What is called a "community of interest" may be established which will control important railroads and huge industrial corporations, as well as a number of banks and trust companies. The various ways in which such a community may manipulate a susceptible market like Wall Street might be made the subject of a long and fascinating volume.

Suppose that a powerful group wishes to create the appearance of a general trade depression in the United States. To do so is not at all impossible. The controlled railways may announce and even partially carry out a policy of reduced orders for rails, equipment, and repairs. They may ostentatiously proclaim an addition to the number of idle cars. Well-disciplined combinations of steel and textile mills may declare a curtailment of production. Banks may suddenly become ultra-conservative; the open accounts and credits of small speculative customers may be closed. In this way a general feeling of despondency can be created. Stocks will fall, partly in consequence of the action of the banks, causing a compulsory liquidation of speculative accounts, partly through the voluntary action

of speculators who think that trade, earnings, profits, and dividends are likely to decline. Thus a bear market is created. The syndicate can now employ huge funds to advantage in profitable purchases of those stocks and shares which fall most and are most responsive to ups and downs. Such a policy of course represents great difficulties and dangers. It must be carried out very cautiously and very secretly, and very honorably as between the members. And if it is too successful it may create a slump, or a panic, in which the community of interests may itself be seriously involved. For these and other reasons American operators and manipulators do not frequently enter upon a concerted plan for colossal bear operations. Such a scheme is unpopular. It offends public sentiment. A long bearish movement, accompanied by unemployment, reduced earnings, and economies in expenditure, produce all manner of unpleasant consequences, economic, social, and political. In fact big men often boast that they never operate upon the short side, never play for a fall.

Such a movement as that sketched above is comparatively rare, cautious, and temporary. Wall Street has of course to wait upon circumstances. Sometimes it is caught by the circumstances. But it must always try to adjust itself to economic and political conditions. A political assassination, a war, a movement against the trusts, unfavorable decisions in the courts, an unexpected downfall of the favourite political party, a catastrophe like the San Francisco earthquake—such events as these may produce an irresistible flood of liquidation against which the strongest combination of bankers and corporation men will struggle in vain. In a general scramble produced by some unexpected event there is more likely to be a general loss than a general profit. For in the history of speculation the unexpected event is usually a calamity.

Real prosperity is built up gradually. The Stock Exchange anticipates and exaggerates it, until the speculative fabric has been reared so high above the real foundation that a crash is seen to be inevitable. Generally speaking, because of superior knowledge, the insiders are able to unload at high levels, just as they have been able to load at low levels. So, by speculating in stocks of a national size and significance, the outside public loses more than it gains. It begins to buy when they are dear, and it begins to sell when they are cheap.

For purposes of scientific analysis we may rest the theory of Stock Exchange quotations upon a distinction between prices and values. Prices are temporary; values are intrinsic; they move slowly. The price represents the momentary market value of a stock

or bond. The value is the real worth, a thing undefinable and impossible to ascertain. If the real value were ascertainable and available to the public then price and value would be identical, and in the case of gilt-edge securities, the two are as nearly as possible identical. But intrinsic values themselves change like everything else in the world. They depend mainly upon (1) the rate of interest, (2) the margin of surplus earning power or revenue.

Both stocks and bonds are also affected in their intrinsic value by the money market and the relationship of the supply of capital seeking investment to the demand for capital by new flotations. The intrinsic value of common stock depends also upon the actual efficiency of the corporation, the condition of its plant, the skill of its management, and the contentment, intelligence, and industry of its whole staff.

Of course all these changeful elements of intrinsic value enter into prices. But as prices sometimes fluctuate violently, it is obvious that they must also be affected by other causes. These may be summed up under two heads: (1) False rumors, which have got about either by design or through the carelessness or mistakes of newsmongers; and (2) Rigs, pools, combinations, and other technical devises, by which the market is either flooded with, or made bare of, a particular stock or group of stocks.

88. The Functions of Exchanges[21]

BY CHARLES A. CONANT

The fundamental function of the exchanges is to give mobility to capital. Without them the stocks and bonds of the share company could not be placed to advantage. No one would know what their value was on a given day, because the transactions in them would be private and unrecorded. The opportunities for fraud would be multiplied a hundred fold. The mobility for capital afforded by the corporation would be meager and inadequate if the holder of its bonds and shares did not know that at any moment he could take them to the exchanges and sell them. The publicity prevailing in stock-exchange quotations gives the holder of a security not only the direct benefit of publicity, but the opinion of the most competent financiers of Europe and America. If they were dealing with him privately, they might withhold the information. But the

[21]Adapted from *Wall Street and the Country*, 88–116. Copyright by the author (1904).

quoted price stands as a guide to even the most ignorant holder of securities.

The second benefit is in affording a test of the utility to the community of the enterprises which solicit the support of investors. The judgment of experts is there expressed, through the medium of price, on the utility of the object dealt in. If an unprofitable railroad is built in the wilderness of Manitoba, the investor does not have to hunt up information on the freight and passengers carried: he has only to look at the quotations on the New York Stock Exchange to know at once the judgment of experts on it as a commercial venture. If the investor finds that the stocks of cotton-mills are declining, he makes up his mind that there are no further demands for cotton mills. If stocks are exceptionally high, he knows that the public demands more cotton mills, and that an investment in them will prove profitable. All this information is put before the investor in a single table of figures. It would be practically unattainable in any other form. Thus there is afforded to capital throughout the world an almost unfailing index of the course in which new production should be directed.

Suppose for a moment that the stock markets of the world were closed, that it was no longer possible to learn what concerns were paying dividends, what their stocks were worth, how industrial establishments were faring. How would the average man determine how new capital should be invested. He would have no guide except the most isolated facts gathered here and there at great expense and trouble. A great misdirection of capital and energy would result. The stock market is the great governor of values,—the guide which points the finger to where capital is needed and where it is not needed.

The very sensitiveness of the stock market is one of its safeguards. Again and again it is declared in the market reports that certain events have been discounted. As a consequence when the event actually happens, it results in no such great disturbance to values as was expected. Is it not better that this discounting of future possibilities should occur? Is it desirable that capital and production should march blindly to the edge of a precipice and then leap off, instead of descending a gradual decline? This discounting of the market enables the man who holds a given security to convert it into money without being ruined. It enables the prudent man to hold on to his securities and even to buy those of the frightened and more excited.

Another important influence of the stock exchange is that which it exerts upon the money market. The possession by any country

of a large mass of salable securities affords a powerful guarantee against the effects of a severe money panic. If in New York there arises a sudden pressure for money, the banks call in loans and begin to husband their cash. If they hold large quantities of securities salable on the London or Paris or Berlin market, a cable order will effect the sale of these in an hour, and the gold proceeds will soon be available. These securities prevent sudden contraction and expansion in the rate of loans. This influence of the stock market has much the effect of a buffer upon the impact of two solid bodies. Crises are prevented when they can be prevented, and when they cannot they are anticipated, and their force is broken. Securities are in many cases better than money. If a large shipment of money has to be made from New York to London, it is much more economical to ship securities of the same amount than to ship kegs of gold. Credit is forwarded by cable and the securities follow by mail. All markets are thus brought into touch with each other, and respond to a fluctuation of a fraction of one per cent, but without the confusion and crash which would ensue if every sudden pressure for money was felt upon a market naked of such securities.

There is another important consideration in this influence of the stock market upon modern society, which will perhaps gather up and bring into a clearer light some of the other points which have been made. The stock market, by bringing all values to a level in a common and public market, determines the direction of production in the only way in which it can be safely determined under the modern industrial system of production in anticipation of demand. It does so by offering the highest price for money and for the earnings of money at the point where they are most needed. It is only through the money market and the stock exchange together that any real clue is afforded of the need for capital, either territorially or in different industries. Capital is attracted to securities that are selling high because the industries they represent are earning well. Consequently there results a closer adjustment of production to consumption, of the world's work to the world's need, than would be possible under any other system.

89. The Experience of Germany with Stock Exchanges[22]

In 1892 a commission was appointed by the German government to investigate the methods of the Berlin Exchange. The regular business of the Exchange embraced both securities and commodi-

[22]Adapted from *The Report of the Hughes' Committee (N. Y.) on Speculation in Securities and Commodities* (1909).

ties; it was an open board where anybody by paying a small fee could trade. The broker could make such charge as he pleased for his services. Margins were not always required. Under the circumstances many undesirable elements entered the exchange.

The commission was composed of governmental officials, merchants, bankers, manufacturers, professors of political economy, and journalists. Its report was completed in November, 1893. Although there had been a wide-spread popular demand that all short selling be prohibited, the commission reported that such a policy would be harmful to German trade and industry. They were willing, however, to prohibit speculation in industrial stocks.

The Reichstag, however, rejected the recommendations of the commission, and in 1896 enacted a law much more drastic. The landowners, constituting the powerful agrarian party, contended that short-selling lowered the price of agricultural products, and demanded that contracts on the Exchange for the future delivery of wheat and flour be prohibited. The Reichstag assented to this demand. It also prohibited trading on the Exchange in industrial and mining shares for future delivery. It enacted that every person desiring to carry on speculative transactions be required to enter his name in a public register, and that speculative trades by persons not so registering be deemed gambling contracts and void. The object was to deter small speculators and to restrict speculation to men of character and capital.

The results were quite different from the intention of the legislature. Men of character and capital declined to advertise themselves as speculators. The small fry found no difficulty in evading the law. Foreign brokers flocked to Berlin and established agencies for the purchase and sale of foreign stocks. Seventy such offices were opened in Berlin within one year after the law was passed and did a flourishing business. German capital was thus transferred to foreign markets. The Berlin Exchange became insignificant and the financial standing of Germany as a whole was impaired.

There was, however, even a more serious consequence of the new law. While bankers and brokers were required to register, their customers were not compelled to do so. Consequently the latter could speculate through different brokers on both sides of the market, pocketing their profits and welching on their losses as gambling contracts. Numerous cases of this kind arose, and in some the plea of wagering was entered by men who had previously borne a good reputation.

Another consequence was to turn over to the large banks much of the business previously done by independent houses. Persons who desired to make speculative investments in home securities applied directly to the banks, depositing with them satisfactory security for the purchases. As the German banks were largely promoters of new enterprises, they could sell the securities to their depositors and finance the enterprise with the deposits. This was a profitable and safe business in good times, but attended by danger in periods of stringency, since the claims of depositors were payable on demand. Here again the law worked grotesquely, since customers whose names were not on the public register could, if the speculation turned out badly, reclaim the collateral or cash they had deposited as security.

The evil consequences of the law brought about its partial repeal in 1908. By a law then passed the government may, in its discretion, authorize speculative transactions in industrial and mining securities of companies capitalized at not less than $5,000,000; the Stock Exchange Register was abolished; all persons whose names were in the commercial directory were declared legally bound by contracts made by them on the Exchange. Other persons, while not legally bound by such contracts, could not reclaim deposits of cash or collateral security for speculative contracts, on the plea that the contract was illegal.

Germany is now seeking to recover the legitimate business thrown away twelve years ago. It still prohibits short selling of grain and flour, although the effects of the prohibition have been quite different from those which its supporters anticipated. As there are no open markets for these products, and no continuous quotations, both buyers and sellers are at a disadvantage; prices are more fluctuating than they were before the passage of the law against short-selling.

F. THE CORPORATION

90. The Nature of the Business Corporation[23]

BY HARRISON S. SMALLEY

Superficially considered, a corporation is an association of persons for the accomplishment of certain purposes. While non-commercial motives lead to the organization of corporations, most of them are formed with money-making ends in view. These last are

[23]Adapted from a textbook entitled *The Corporation Problem,* privately published (1912).

called business corporations. Persons become members by acquiring one or more shares of stock, on which account they are called shareholders.

A share of stock represents an interest in the business; hence a stockholder is an entrepreneur. All the shares of stock represent all the interests in the business; and thus if there are 1,000 shares of stock outstanding, one who owns 100 shares has a one-tenth interest in the business. A nominal value, called the "par value" is assigned by the corporation to its stock. In most cases the par value of a share is $100, though many companies have chosen other sums. The total par value of all the stock does not necessarily equal the value of the corporation's property.

All net earnings, treated as profits, are distributed among the stockholders pro rata, and are called dividends.

The price of a share of stock depends largely upon the rate of dividends customarily paid on it. If six or seven per cent. per annum is paid, the price will be about par; if twenty per cent. can be paid each year, the price will be far above par. But numerous other factors, for instance, the general credit and standing of the company, the apparent future prospects of industries of that type, the condition of the money market, the general business situation, all share in determining the price of the stock.

In addition to a right to dividends, the shareholder is entitled to other privileges and advantages. If the business is closed out, he has a right to his proportionate share of the net assets. During its life he has a voice in the management of the enterprise. In addition to electing the directors, the stockholders have a right to decide such questions of exceptional character as the issue of stocks and bonds, the amendment of the corporate charter, the dissolution of the business, etc. Aside from these few extraordinary matters, the stockholders are without power, for the affairs of the company are in the hands of the directors, who, once elected, may manage the business as they see fit. All that the stockholders can do if not satisfied is to wait until the next annual meeting and then replace the directors with others.

In stockholders' meetings each stockholder has one vote for each share of stock held by him. In voting for directors he has as many votes per share as there are directors to be elected. Thus, if five directors are to be elected and he holds one hundred shares, he has five hundred votes. These he can distribute in any way he sees fit. He can cast all for one candidate, one hundred for each of five, or otherwise. This is called cumulative voting. He is privileged to vote by proxy.

In a majority of corporations, most of the stockholders take no active part. The control of the corporation is highly autocratic rather than democratic in character. Many corporations have thousands of members. Yet almost always it is dominated by less than a dozen men, who may own only a minority of its stock. Few persons attend the annual meeting of the stockholders. Parties particularly interested collect proxies of absent members. Thus it is relatively easy for a management to perpetuate its control and to carry out its policies.

In many corporations the stock is of two classes, common and preferred. The leading difference is that dividends at a certain fixed rate must be paid on the preferred, before any can be declared on the common; but usually there are also other differences. If the business is closed up, the preferred stockholders usually have a prior claim. Not infrequently there is a difference in voting rights. In some cases preferred stockholders cannot vote unless their dividends are in arrears. In other cases the preferred stockholders are entitled to elect a certain number of directors, and the common stockholders the rest.

Cumulative preferred stock is stock upon which, in addition to current dividends, all arrears of dividends must be paid before any dividends can be declared on the common.

A corporation usually puts out bonds. The bond does not represent an investment in the business; it simply evidences a debt owed by the corporation to an outsider. A bond is, in effect, a formal promissory note, a promise to repay money with interest at a certain per cent. The bondholder is not an entrepreneur, but simply a capitalist. In consequence he has no vote in corporate affairs. Bonds are almost invariably secured by a mortgage upon a part or all of the corporate property. All the stocks and bonds of a corporation are known as its securities, and the sum of the par values of all the securities is called the "capitalization" of the corporation.

If a corporation is unable to pay interest on its bonds, or is otherwise insolvent, the proper court will, on application, appoint a receiver, who, as a temporary officer of the court, takes charge of the corporate property and business. In these days it is deemed inexpedient to terminate an established enterprise, except in rare cases, and the receiver continues the business and attempts to build it up.

While the receiver is thus engaged, the security holders form one or more "reorganization committees," to put the corporation on

a sounder basis. They must raise money to pay off back debts. Generally they must scale down the capitalization, so that the earning power will cover the bond interest and also a fair rate of dividends. This means that existing security holders must allow a portion of their securities to be cancelled, and the struggle to see how much each class of security holders will sacrifice is often long and bitter. Preferred stockholders suffer more than bondholders, and common stockholders more than preferred. Sometimes the stockholders are wholly "frozen out."

A corporation can be formed only with the consent of the government, and upon such conditions as the government may prescribe. The instrument, granted by the state, and specifying the terms and conditions upon which the corporation may engage in the business for which it is organized, is called the charter. In this country the legislative branch of the government has always exercised the function of creating corporations. According to "general laws," now universally in force, any group of persons, not less in number than a fixed minimum, can become a body corporate under the conditions laid down in the law.

A few striking facts will show that in the eyes of the law the corporation is an entity distinct from the stockholders, having a legal status and legal rights and liabilities of its own. First, the corporate property belongs to the corporation itself, not to the members; a change in membership does not disturb the title. Second, a corporation's contract is not the undertaking of its members. Third, the transfer of shares by the members has no effect upon the life of the corporation.

Lawyers and judges have regarded the corporation as an artificial person. The trouble resulting from that concept has been evident in connection with the penal laws concerning corporations. We have attempted to punish the corporation for violations of law, when it is evident that in every offense the real actors are human beings. To inflict a fine on a corporation is to lay a burden on the whole body of stockholders. In reality a few men committed the offense. Such a method of corporate punishment is, therefore, as unjust as it is ineffectual. Consequently there has arisen the saying "guilt is personal," and we are now beginning to attack the responsible individuals themselves.

The true view of the corporation would seem to be that it is an imaginary entity which serves the association of persons as a convenient instrument through which they may conduct their business.

91. Corporate Distribution of Risk and Control[24]

BY W. H. LYON

The corporation makes possible a parceling-out of the incidents of ownership in many combinations, an allotment of management, risk, and income in varying proportions. The line of apportionment becomes very flexible.

The corporate form marks the line of division of management into administration and control. Shareholders possess control, but through directors delegate administration to officers. Varying rights given special classes of stock make a widely varying apportionment of income, control, and risk. Common stockholders accept a maximum of risk in expectation of a maximum of income. They may share the incident of control equally or in varying proportions with other classes of stock. If two classes of stock enjoy exactly equal rights, except that one has preference as to income, they do not divide control, but risks, and the combination of control plus risk in one as compared with the combination of control plus risk in the other makes the ownership represented by one class entirely different from the ownership represented by the other.

We may speak of these divisions and combinations of income, control, and risk, creating different kinds of ownership, as horizontal divisions. But there is another division of ownership, that represented by the number of shares of stock or the number of bonds. It makes a division into amount of ownership rather than kind, into quantity rather than quality, a perpendicular division.

Now these two kinds of division of ownership accomplish two very different results. The perpendicular division of amounts of ownership makes possible the fitting of every man's pocketbook or financial ability. The horizontal division into kinds of ownership results in an even more difficult fitting, that of his type or state of mind. For one man may be more or less willing to take a chance than another. The same man may be more willing at one time than another. He may be unwilling to take any risk without having some control.

A corporation's stock regularly carries the largest share of present control and also regularly the largest share of risk. The stock may itself divide into two or more classes having obviously divergent interests, with the result that each class will exercise for different purposes the amount of control it possesses. If there is common stock and preferred stock with a limited dividend, the common share-

[24]Adapted from *Capitalization: A Book of Corporation Finance*, 6–16. Copyright by the author. Published by Houghton, Mifflin & Co. (1912).

holders may throw their influence in favor of a more hazardous conduct of the enterprise with an expectation of greater profit accruing to them. Since the preferred stockholders get only limited dividends, they will throw their influence in favor of a safer conduct of the business. Interests of both classes of stockholders might coincide. If the corporation should not earn enough to pay full dividends on preferred stock, the preferred stockholders might desire the more hazardous conduct of the business. If the amount of preferred and common were the same, and each had the same voting power, each class would enjoy control equally. In practice this might not lead to a dead-lock in policy, for one shareholder owning a large amount of common and a small amount of preferred might vote his preferred to favor his common. If the amount of common were twice as great as the amount of preferred, and a share of each class had the same voting rights, the quality of control would in a way differ just as truly as if the amounts of each class were equal but a greater voting power were given the common than the preferred. In either case the common shareholder in a clash of interests would be more likely to have the corporation's policy incline to his advantage.

A corporation having only one class of stock, and no other securities, offers the simplest type. Such a security carries all the control, all the income, and all the risk. It effects only a vertical division of ownership. This form is proper if a satisfactory division of income, management, and risk cannot be made. A mining company especially cannot well divide the peculiar hazards of the enterprise. Since any class of mining securities must retain so much risk, investors will not sacrifice anything of income or control. So it follows that nearly all mining corporations, including oil companies, have only one class of stock and no other securities. Coal-mining companies have issued bonds to some extent, but this business rests upon a more assured basis than mining for metals. Manufacturing companies frequently issue no securities but their common stock. This is probably due to the fact that they are engaged in established kinds of business and follow the precedents set by the older partnerships. So far our financial ingenuity has directed itself for the most part to the comparatively new forms of business, railroads and other public-service corporations. With the coming of the big industrial concerns more complex forms of financing appear, and will probably make their way generally into industrial corporations. Though a holding company may have only common stock, that fact does not necessarily imply simplicity, for the subsidiary companies may have complex capitalizations.

92. The Management of the Corporation[25]

BY WESLEY C. MITCHELL

The classical economists assumed that there stood at the head of the typical business enterprise a capitalist-employer, who provided a large part of the capital invested, assumed the pecuniary risk, performed the work of superintendence, and pocketed the profits. Many enterprisers of this versatile type remain today; but the extraordinary growth in size and influence of the joint-stock company has given greater prominence to another form of business management.

The large corporation, dominant in business today, is owned by a miscellaneous and shifting body of stockholders. The funds required for fixed investment are provided in some measure by these owners, but in larger part by bondholders, who may or may not own shares as well as bonds. The work of management is usually disassociated from ownership and risk. The stockholders delegate the supervision of the corporation's affairs to the directors and they turn over the task of administration to a set of general officers. The latter are commonly paid fixed salaries.

In such an organization it is difficult to find anyone who corresponds closely to the capitalist-employer. Neither the typical stockholder, who votes by proxy, nor the typical director, who gives his attention to routine affairs, fills the bill. The general officers, remunerated largely by salaries, and practicing among themselves an elaborate division of labor, have no such discretion and carry no such risk as the capitalist-employer. The latter has, in fine, been replaced by a "management," which includes several active directors and high officials, and often certain financial advisers, legal counsel, and large stockholders who are neither directors nor officials. It is this group which decides what shall be done with the corporation's property.

In other cases, however, a single enterpriser dominates the corporation, and wields full authority. The stockholders elect his candidates, the directors defer to his judgment, the officials act as his agents. His position may be firmly intrenched by an ownership of a majority of the voting shares, or may rest upon personal influence over the owners of voting shares. In the "one-man" corporations the theoretical division of authority and function becomes a legal fiction. Practically the dominant head corresponds to the old capitalist-employer, except for the fact that he furnishes a far smaller

[25]Adapted from *Business Cycles*, 32–34. Copyright by the author (1913). Published by the University of California Press.

proportion of the capital, carries a far smaller proportion of the pecuniary risk, and performs a far smaller proportion of the detailed labor of superintendence. These limitations do not restrict, but on the contrary enhance, his power, because they mean that the individual who "owns the control" can determine the use of a mass of property and labor vastly greater than his own means would permit.

While the corporate form of organization has made a theoretical division of the leadership of business enterprises among several parties at interest, it has also made possible in practice a centralization of power. The great captains of finance and industry wield an authority swollen by the capital which their prestige attracts from thousands of investors, and often augmented still further by working alliances among themselves. Among the enterprisers of the whole country, this small coterie exercises an influence out of proportion not only to their numbers but also to their wealth. The men at the head of smaller enterprises, though legally free, find their field of initiative limited by the operations of these magnates.

In large corporations the few individuals in control have an opportunity to make money for themselves at the expense of the enterprise itself, or at the expense of the other parties at interest. By giving lucrative contracts to construction or repair companies in which they are interested, by utilizing their advance information of the corporation's affairs for speculation in the price of its shares, by rigging its accounts for the same purpose, by making loans or granting rebates to other companies in which they are interested, it is possible for an inner ring to make profits out of wrecking the corporation. There are certainly instances enough to invalidate the easy assumption that every business enterprise is managed to make money for the whole body of its owners.

93. The Ethics of Corporate Management[26]

BY HENRY ROGERS SEAGER

It is probably within the truth to say that one-half of the business of the United States is now controlled by corporations and there is every indication that the proportion is increasing. This makes important the recognition of certain drawbacks attaching to the corporate form of organization. Chief among these is the fact that responsibility for the management of corporations is diffused. In one-man businesses and partnerships the men who organize and

[26]Adapted from *Principles of Economics,* 161–163. Copyright by Henry Holt & Co. (1913).

manage the enterprise are the ones most vitally interested in its success. In corporations the stockholders, who usually furnish the capital required and have to bear the loss if things go wrong, intrust their interests to the board of directors. The board of directors in turn deputes the actual management of the business to a salaried president or manager who may not, and often does not, have any further interest in the business than that his reputation depends upon the honesty and wisdom with which he manages it. The enterpriser function is thus divided in the corporation between three parties no one of whom has the same vital interest in the business that a single enterpriser or partner feels in businesses conducted under other plans. Moreover, few directors or managers have not, at times, private interests in conflict with the corporate interests they are supposed to promote. This diffusion of responsibility and interest causes corporate management to be often wasteful and sometimes corrupt. The salaries are frequently higher than they need to be to secure the required grade of labor, appointments are often determined by personal rather than by business considerations, and inflated prices are sometimes paid for materials in consequence of the fact that particular directors are interested in their production. More common than these clear violations of trust are misrepresentations in regard to the affairs of the corporation intended to influence the stock market and to enable those interested to carry through deals for their own benefit.

Another abuse is connected with the borrowing power of corporations. When this power is used to secure money by the sale of bonds the law gives to bondholders no voice in the management of the corporation so long as their interest is paid and the principal is not defaulted. The larger the proportion of the capital required for any enterprise that is secured through the sale of bonds, the smaller is the interest in the business of the stockholders, who nevertheless continue to control it. It has often happened in connection with railway corporations in the United States that the entire capital has been secured by selling bonds and that the stock has represented merely a bonus paid to the promoters of the company. This is a situation fraught with danger, as American experience has abundantly proved. To give a fictitious value to their stock, promoters are only too apt to pay dividends out of earnings that should be expended for renewals and replacements. Before the corporation is reduced to bankruptcy they can usually sell their holdings to unsuspecting investors and retire, leaving to them the task of reorganizing the business.

A third set of evils has reference to the general or public interest in corporations. Individuals in their pursuit of gain are controlled by the moral standards of their business associates. Corporations have no moral standards. Their directors have shown themselves willing to wink at practices on the part of the officials they appoint to which they would not themselves stoop. Corporation officials, moreover, do not hesitate to do things in the name and under the cover of the corporations which they would be ashamed to perform openly for themselves. In the United States corporations have been guilty of buying legislatures, bribing judges, entering into agreements with political parties insuring them certain privileges in return for campaign contributions, and in fact of every sin in the political calendar. It is largely owing to them that the tone not only of business, but of political morality, is so much below the standards of private life.

94. The Corporation and Personal Efficiency[27]

BY GEORGE W. PERKINS

Perhaps the most useful achievement of the great corporation has been the saving of waste in its particular line of business. By assembling the best brains, the best genius, the best energy in a given line of trade, and co-ordinating these in work for a common end, great results have been attained in the prevention of waste, the utilizing of by-products, the economizing in the manufacture of the product, the expense of selling, and through better and more uniform service.

This same grouping of men has raised the standard of their efficiency. Nothing develops man like contact with other men. A dozen men working apart and for separate ends do not develop the facility, the ideas, the general effectiveness that will become the qualities of a dozen men working together in one cause. In such work emulation plays a useful part; it does all the good and none of the harm that the old method of restrictive competition did; the old competition was wholly self-seeking and often ruinous, while the new rivalry, within the limits of the same organization, is constructive and uplifting. Thus the great corporation has developed men of a higher order of business ability than ever appeared under the old conditions; and what a value this has for the coming generation!

[27]Adapted from "The Modern Corporation," 5–8, an address delivered at Columbia University, February 7, 1908.

We have heard many warnings that because of the great corporation we have been robbing the oncoming generation of its opportunities. Nothing is more absurd. The larger the corporation, the more certain is the office boy to reach ultimately a foremost place if he is made of the right stuff, if he keeps everlastingly at it, and if he is determined to become master of each position he occupies.

In the earlier days, the individual in business, as a rule, left his business to his children. Whether or not they were competent did not determine the succession. But the giant corporation cannot act in this way. Its management must have efficiency; and nothing has been more noticeable in the management of corporations in the last few years than that "influence," so-called, as an element in selecting men for responsible posts, has been rapidly on the wane. Everything is giving way and must give way to the one supreme test of fitness.

And is it not possible that the accumulating of large fortunes in the future may be curtailed to a large extent through the very workings of these corporations? Are there not many advantages in having corporations in which there are a large number of positions carrying with them very handsome annual salaries, in place of firms with comparatively few partners—the annual profits of each one of whom were often so large that they amassed fortunes in a few years? A position carrying a salary so large as to represent the interest on a handsome fortune can be permanently filled only by a man of real ability, so that in case a man who is occupying such a position dies, it must, in turn, be filled with another man of the same order—while the fortune might be and most likely would be passed on regardless of the heir's ability. Therefore, the more positions of responsibility, of trust and of honor, that carry large salaries, the more goals we have for young men whose equipment for life consists of integrity, health, ability and energy.

Further, there is opportunity in the corporation for a man not possessed of extraordinary ability; wages are unquestionably higher, and labor is more steadily employed; for, in a given line of trade, handled to a considerable extent by a corporation, there are practically no failures; while, under the old methods of bitter, relentless warfare, failures were frequent, and failure meant paralysis for labor as well as for capital.

The great corporation is increasing opportunities for labor; for it is unquestionably making business conditions sounder. It is making business steadier; because firms inevitably change and dissolve, while a corporation may go on indefinitely; because it is able to sur-

vey the field much better than could a large number of firms and individuals and, therefore, vastly better able to measure the demand for its output and, if properly managed, to prevent the accumulation of large stocks of goods that are not needed—a condition which often arose under the old methods when many firms were in ruthless competition with one another in the same line of business, oftentimes producing serious financial difficulties for one and all.

Broadly and generally speaking, the corporation as we know it today, as we see it working and feel its results, is in a formative state. In many cases actual and desperately serious situations caused it to be put together hurriedly. In many cases serious mistakes have been made in the forms of organization, in the methods of management, and in the ends that have been sought. In some instances the necessity for corporations has grown faster than has the ability of men to manage them. Yes, mistakes have been many and serious. But the corporation is with us; it is a condition, not a theory, and there are but two courses open to us—to kill it or to keep it.

95. The Function of the Corporation

BY J. B. CANNING

The function of the modern business corporation, as a form of business organization, is to increase the productivity of invested capital and to facilitate and stimulate saving. The peculiar ability of the corporation to perform this function is due to its unique combination of legal rights and privileges which allows: (1) indefinitely minute division of its certificates of ownership (stocks) and of its certificates of indebtedness (bonds); (2) limitation of liability of its members (stockholders); (3) the distribution of the risks of industry, by means of issues of different classes of stocks and of bonds, among its members and creditors; (4) the delegation by its members of the power to direct and administer its business policy to its responsible agents, the directors and officers; and (5) an easy means for transferring ownership of its securities from one investor to another. None of these rights, by itself, is peculiar to the corporation. Partnerships with limited liability and joint-stock companies possess them in part, but no other form possesses quite so advantageous a combination of them.

To a saver investing his accumulations of capital to secure an income, the value of a nominal income of given amount, rate of flow, and time of accrual, becomes greater as the possibility of loss is minimized or limited and as the probability of gain is increased. In

general, the greatest loss possible to an investor in the stock of a corporation is limited to the sum paid for the issued, and fully paid, stock.[28] For, unlike the condition found in the ordinary partnership, all of whose members are agents of the firm and each of whom is, therefore, unlimitedly liable for any and all obligations incurred in the course of the firm's business by any other member, the corporation is, itself, a legal person and its stockholders are not its agents nor are they bound to it by any legal obligation other than that of paying for the stock its full subscription value. To a stockholder, therefore, the ability and integrity of other stockholders is a matter of no concern save as they possess the right to vote for directors and, indirectly, for officers, both of whom are agents of the corporation. Since the latter are agents of the corporation and not of the stockholders, they cannot incur obligations for which the stockholders are liable.

The fact that a corporation may, and many do, issue bonds in convenient denominations, amply secured, as to their so-called principal, by tangible wealth and, as to their income, by net earnings considerably above the amount required, makes it possible for the small investor with little knowledge of the company's probable total earning capacity to invest his savings in what is, humanly speaking, a certain income. The same corporation may issue another class of security, preferred stock, which generally has a first claim upon assets and upon income after the claims of the bondholders are discharged. Upon these stocks a definite income, usually larger than that paid the bondholders, is promised—an income that may be, and often is, secured by net earnings considerably in excess of the amount necessary for the purpose. Purchase of this stock enables the investor who has a more intimate knowledge of the company's affairs and prospects to secure a larger income without necessarily incurring greater risk. The ability of the corporation to issue still another class of security, common stock, which has a residual claim upon assets and upon income after all claims of the holders of bonds and of preferred stocks have been met, allows still another class of investors who have the most intimate knowledge of the company's affairs, and who are most willing to incur risks, to secure an income objectively less certain but with no maximum limit other than the earning capacity of the company. The ability of the corporation thus to issue any number of classes of securities, each with a different rank as to priority of claims upon assets and upon income,

[28]In some states stockholders are liable for twice the par value of the shares held. Holders of the stocks of national banks have a double liability.

allows for any relative distribution of risks and of rewards that promises to please the investing public best.

In addition to the limitation of liability, which, in general, limits possible loss to the amount paid for an issued and fully paid stock, and in addition to the possibility of selecting from a given corporation's securities one carrying little appreciable risk, the investor has another, and very important, means of reducing the risk of large loss, viz., he may distribute his investment among the securities of several corporations engaged in different kinds of enterprise and located in different parts of a country or in different countries. Since stocks may be issued in denominations as small as desired, and since a stock certificate represents an undivided interest in income and assets, it must be obvious that the total loss of an investment distributed widely over the field of industry and apportioned judiciously among the existing industries and corporations can scarcely occur short of a catastrophe involving the general collapse of economic activities. Furthermore, the simple and direct means of transferring ownership of corporation securities makes it easy for an investor, if he loses faith in a concern in whose securities he has invested, or if he learns of some other concern that promises better returns, to transfer his funds to another enterprise. Incidentally this ease of liquidation makes corporation securities highly acceptable as collateral for loans. Since the minimizing of risk increases the value of a prospective income, all these attributes of the corporation operate to offer the investor a larger reward for saving and, in consequence, tend to increase the amounts saved.

The attributes of the corporation above discussed are economically advantageous whether the scale of industry be large or small, but in the field of large-scale industry the corporation possesses a superiority of another sort. We have said that the investor may distribute his investment over a wide range; the converse of this statement is also true, viz., a new enterprise, however great, may draw funds in small amounts from a great number of investors. This makes it possible to gather together the smallest accumulations as fast as they are made and to put them to immediate use in those new enterprises that promise the greatest gains no matter how great those new enterprises may be. This result is usually accomplished through the agency of savings banks, trust companies, insurance companies, and other financial middlemen, who either advise the individual in his choice of securities or else make the investment in their own names from funds loaned them at interest by the saving public. As a consequence of this aptitude of the corporation for accumulating large amounts from small savings, managerial ability,

mechanical labor, and machine processes may be so co-ordinated as to enhance to the greatest possible degree the productivity of the capital saved.

The advantages of the corporation are readily seen, then, to be both interacting and cumulative. The productivity of capital is increased by the choice and co-ordination of productive factors rendered possible by large-scale industry. Accumulated capital is put to immediate use where it is most productive. The value of the increased income is enhanced by the limitation and distribution of risks. And all these work together to stimulate and to accelerate investment.

V

PROBLEMS OF THE BUSINESS CYCLE

Under the simple conditions assumed in the last division, the problem of the organization of industrial life was found to present many bewildering aspects. But placed in a developing society it becomes doubly bewildering. None of the economic and ethical questions which were noted have disappeared and the new setting adds its own quota of problems.

The disturbing elements in the larger situation are closely associated with those regularly recurring phenomena which are usually called "crises" and "depressions." It was once held that these played havoc with "economic gear and cogs," throwing the "industrial machine" "out of joint," or leaving it "half stalled." Such conditions were looked upon as abnormal; they were thought to create problems of a mechanical character; they called for the services of the industrial mechanician. But, the damage once repaired, the "industrial machine" could run its prosperous course until another catastrophe threw "the monkey-wrench into the machine."

Recent analysis, however, has shown that the matter is not so simple as all this. Two closely related lines of movement converge to produce these disturbances. The first is the development of the industrial system. This involves change in technique, in organization, in markets, and in the demand for goods. The instruments of production are largely specialized; labor is mobile only within fixed limits; and only newly accumulated capital is possessed of this characteristic. Capital values are based upon the earnings anticipated in view of the known and predictable, not the novel, elements in the situation. Particular productive goods are turned out with an expectation that they will be used in the production of particular consumptive goods. The system as a whole has far too much of rigidity successfully and immediately to adapt itself to those radical changes. Yet so delicate is the system that anything which affects a particular industry is certain to have an appreciable effect upon the whole.

The second is "the rhythm of business activity," or the economic cycle. A depression, characterized by conservatism in business and financial activity, gradually leads to an improvement in conditions; as business expands a spirit of optimism arises, and stimulates further expansion; the latter reacts upon the feeling of optimism and causes it to assume a tone of overconfidence, which leads to "flush times" and feverish activity; sooner or later business overshoots the mark, losses occur, and perhaps a crisis, contraction is necessary, and a depression again appears. The cycle is a closed one; it has no logical begining and no consummation. From lean to fat to lean years it ever runs its varied round.

But the situation is further complicated by the different behavior of different industries and industrial agents during the cycle. If the price scheme were such that values as a whole could be quickly readjusted to meet new conditions, much trouble might be avoided. But such is not the case. Sheer necessity alone must be depended upon to establish the lower price level. But businesses occupy different strategic positions; the baker and the manufacturer of steel rails are likely to be affected in different ways by price-making forces at different stages of the cycle. The man with fixed salary and the

employee whose contract runs in terms of a few months or weeks are on a different footing. The result is that all values do not go up or go down together. The output of various industries, similarly, do not increase or decrease together. Yet all of these industries are involved in a delicate system that calls for nice adjustments.

It is these movements which are responsible for the facts that no two cycles—or crises—are alike; that the cycle varies greatly in length, in sweep, and in intensity, and that a myriad of dissimilar theories have been put forward to account for them, few of which contain no germ of truth.

Its spectacular character has singled out the crises for particular attention almost to the exclusion of the more important "flush times" and depressions. It is not surprising that antecedent business and industrial conditions are often overlooked, and crises are explained in terms of monetary standards and banking systems. Undoubtedly our banking laws in the past have made our crises unusually severe. The elasticity of credit and note-issue secured by the recent currency act should do much to relieve financial stringency when a crisis arises. It should also do something to prevent its occurrence. But those who expect it to cause the industrial process to pursue a more even course are likely to be disappointed.

The violence of the ebb and flow of business activity increases tremendously the difficulty of properly organizing society through price. It also reveals grave breaks in the organization. Capital is insecure and funded wealth may disappear over night. The cycle is associated with a rhythm of overemployment, non-employment, and underemployment. The capitalists and laborers whose products satisfy marginal wants are put in a very precarious economic position. The crisis destroys wealth, specialized talent, and organization, all of which must be replaced.

The economic cycle involves the whole industrial system. No simple device will arrest the violence of its rhythm. It can be reached only by a complex of many complementary measures. *If* we are to control the cycle—we must learn to control the introduction of new technique; the demand for goods must be steadied; we must develop an art of predicting business conditions; a means must be found for co-ordinating recently accumulated capital and opportunities for investment; a higher sense of responsibility in making loans must be developed by the bankers; a feeling of responsibility must be engendered in the promoter; and means must be devised for checking the speculative mania.

In time, as our very rapid industrial development slows up, the sweep of the economic cycle may be expected to be less extreme. Then perhaps we shall hear complaints about a prosaic age that has no speculative prizes to dangle before the eyes of investors to tempt them to take chances with unknown opportunities. Then, perhaps, men will point to the "golden age" of the past, when unexploited opportunities were on all sides. They may go so far as to conclude that our violent fluctuations in business were a small price to pay for our rapid industrial development.

A. THE DELICATE MECHANISM OF INDUSTRY

96. The Spirit of Business Enterprise[1]

BY WESLEY C. MITCHELL

Money economy has attained its fullest development in our own day under the influence of machine production. Its essential feature

[1]Adapted from *Business Cycles*, 21–26. Copyright by the author (1913). Published by the University of California Press.

is that economic activity takes the form of making and spending money incomes. Instead of producing the goods their families require, men "make money," and with their money incomes buy for their own use goods made by unknown hands. The economic comfort or misery of the modern family, accordingly, depends not upon its efficiency in making useful goods and its skill in husbanding supplies, but upon its ability to command an adequate money income and upon its pecuniary thrift. Even in years when crops are short and mills are idle, the family with money need not go cold or hungry. But the family without money leads a wretched life even in years of abundance. Always the elaborate co-operative process by which a nation's myriad workers provide for the meeting of each other's needs is brought into precarious dependence upon the factors which determine the prospects of making money.

For purposes of making money men have gradually developed the modern business enterprise—an organization which seeks to realize pecuniary profits upon an investment of capital by a series of contracts for the purchase and sale of goods in terms of money. Business enterprises of the full-fledged type have come to occupy almost the whole field in finance, wholesale trade, railway and marine transportation. They dominate mining, lumbering and manufacturing. In retail trade they play an important rôle, and in agriculture they have secured a foothold. But, despite this wide extension of business aims and methods, there still remain broad differences of degree between the enterprises typical of the several fields of effort. In size, in complexity of organization, in dependence on the money market, in singleness of business aim, the typical farm and the small retail store are not comparable with the typical corporate enterprises of transportation, mining and finance.

This uneven development of business organization in different fields is highly important. For it is within the circles of full-fledged business enterprises that the alternations of prosperity and depression appear most clearly. Branches of trade which are not organized elaborately are much less susceptible both to the stimulus of prosperity and to the inhibition of depression. In country districts, for example, the pace of activity is subject to seasonal but not to cyclical changes such as occur in factory towns. The farmers are never thrown out of work except by bad weather, and they are never overrushed except by seed-time and harvest. In other words, the scope and intensity of prosperity and depression appear to depend upon the extent and the perfection of business organization.

No less important is the thoroughgoing interdependence of business enterprises. As a plant concerned with the handling of

commodities, the typical enterprise is one cog in a great machine. Our industries are carried on by sets of nominally independent plants which pass on goods to each other. For example, one series embraces wheat-growers, grain-carrying railways, elevators, flour mills, wholesale dealers in provisions, bakeries, and retail distributing agencies. Each set of members in such a series is dependent upon the preceding set for its chief supplies and upon the succeeding set for its chief vent. Further, no industrial series is self-sufficing. Each set of enterprises in our example, from the farms to the retail agencies, is industrially dependent on other industrial series which equip it with buildings, machines, fuel, office supplies, etc. A peculiar mutual dependence exists between the whole mass of industries and the railways. Coal-mining and the steel trade also touch practically every industrial establishment. Since the transfers of goods are maintained by contracts of purchase and sale, each enterprise is affected by the fortunes of its customers, its competitors, and the purveyors of its supplies. Financial interdependence is also in part but another aspect of the industrial and commercial bonds. Complicated relationships of debtor and creditor arise from the purchase and sale of goods on credit, and make the disaster of one enterprise a menace to many.

A business enterprise may participate in the work of providing the nation with useful goods or it may not. For there are divers ways of making money which are positively detrimental to future welfare. But it is more important that even the enterprises which are making useful goods do so only so far as the operation is expected to serve the primary business end of making profits. Any other attitude is impracticable under the system of money economy. For the man who allowed his humanitarian interests to control his business policy would soon be forced out of business. From the business standpoint the useful goods produced are merely by-products of the process of earning dividends. A clear appreciation of this fact is necessary to an understanding of the relations between industry, commerce, and business. For the well-being of the community, efficient industry and commerce are vastly more important than successful money-making. A panic which did not interrupt the making and distributing of wares desired by the community would be no great disaster. But the whip-hand belongs to business. In practice, industry and commerce are thoroughly subordinated to it. The ebb and flow of contemporary economic activity is primarily concerned with the phenomena of business traffic—that is, of money-making.

Business prosperity depends upon the factors which control present and prospective profits, together with present and prospec-

tive ability to meet financial obligations. Profits are made by connected series of purchases and sales. Accordingly the margins between the prices at which goods can be bought and sold are the fundamental condition of business prosperity. Just as the ever-recurring changes within the system of prices affect business prosperity and through it national welfare, so do changes in national welfare and business prosperity react upon prices. A period of business expansion causes an interminable series of readjustments in the prices of various goods. These readjustments in turn alter the pecuniary prospects of the business enterprisers which buy or sell the commodities affected, and thereby start new changes in business prosperity. With the latter changes the process begins anew. Prices once more undergo an uneven readjustment, prospects of profit become brighter or darker, business prosperity waxes or wanes, prices feel the reflex influence of the new business situation—and so on without end.

97. The Interdependence of Prices[2]

BY WESLEY C. MITCHELL

The prices ruling at any given time for an infinite variety of commodities, services, and rights which are being bought and sold constitute a system.

The prices which retail merchants charge for consumers' commodities afford the best starting-point for a survey of this system. These prices are loosely connected with each other; for an advance in the price of any commodity usually creates an increased demand for other commodities which can be used as substitutes, and thus favors an advance in the price of the substitutes. They are, however, more closely related to the prices for the same goods which shopkeepers pay to wholesale merchants, and the latter to manufacturers. There is, of course, wide diversity between the number of members and in the margins between the successive prices in the series. These margins are usually wider in retail than in wholesale trade; wider on perishable goods than on durable staples; wider when the manufacturer sells directly to the consumer than when merchants intervene; wider when a monopolist can fix prices in his own favor, etc. But these diversities are themselves measurably regular, so that the margins between the successive prices in the series for each kind of commodities form a tolerable business basis

[2]Adapted from *Business Cycles*, 27–32. Copyright by the author (1913). Published by the University of California Press.

for making profits out of the process of supplying the community with goods.

The business men engaged in squeezing money profits out of these price-margins are seldom able to keep the whole difference between buying and selling prices. From retailers to manufacturers they require various commodities, services, and rights for the efficient control of their operations. For such producers' goods they have to pay out prices which eat into the profit-margins of the goods in which they deal. The most important classes of producers' goods are raw materials, buildings and machinery, labor, loans, leases, transportation, insurance, and advertising. It is difficult in many of these cases to connect directly the prices which figure as costs with the margins upon which particular commodities change hands. For the cost prices are usually paid for the pecuniary advantage of the enterprise as a whole, and the accruing benefits extend to many transactions and cover a long time. The like is true of manufacturers.

With the exception of labor, producers' goods are provided, like consumers' goods, by business enterprises operating on the basis of margins between buying and selling prices. Hence the price of a given goods is related not only to the prices of the consumers' goods in the production of which it is used, but also to the prices of the various other producers' goods employed in its own manufacture. Thus the prices of producers' goods form the beginnings of new series of relationships which run backward with countless ramifications and never reach definite stopping-points. Even the prices of raw materials in the hands of the ultimate producers are related intimately to the prices of the labor, current supplies, machinery, buildings, land, loans, etc., which the farmers, miners, etc., employ.

The price of labor may seem to bring the series to a definite stop at least at one point. For in most cases the laborer does not have a business attitude toward the production of his own energy. But the price which the laborer can command is connected with the prices of the consumers' goods which established habit has made into a standard of living. At this point, therefore, analysis of the interrelations between prices brings us, not to a full stop, but back to our starting-point, the prices of consumers' goods.

We must also take account of the prices of business enterprises themselves. Occasionally established business enterprises are sold outright. But the most important transactions of this class are stock-exchange dealings. That the prices of whole business enterprises or of shares in them are intimately related to the prices which have been discussed is clear; for these prices depend primarily upon

present and prospective profits, and the latter upon price-margins and the volume of business transacted.

There remains for consideration the prices paid for heterogeneous personal services. These include domestic service, medical attendance, instruction, many forms of amusement, etc. The furnishing of such services contrasts with business traffic in consumers' goods, loans, transportation, etc. For systematic organization has not been developed to so high a point, business motives do not have such unrestricted scope, and the wares are not standardized in equal measure. Moreover, the prices people are willing to pay are based rather on personal needs and income than on calculated chances of profit. The prices of these services therefore form the most loosely organized and irregular division of the system of prices.

This classification of prices assists in seeing the relations which bind all prices together and make them a system. Many price relations are already sufficiently clear, but several lines of relationship should be indicated more definitely.

1. On the side of demand almost every good has its possible substitutes. Through the continual shifting of demand changes in the price of one commodity are often communicated to the prices of its substitutes, from the latter to the prices of their substitutes, and so on. An initial change, however, usually becomes smaller as it spreads out in widening circles.

2. Similarily, on the side of supply, almost every good has genetic relationships with other goods, made of the same materials, or supplied by the same set of enterprisers. Particularly important are the genetic relationships based upon the use of the same producers' goods in many lines of trade. Floating capital, transportation, labor, machinery, etc., enter into the cost of most commodities. Accordingly a changed price established for one of these common producers' goods in any important use may extend to a great diversity of other uses, and produce further price disturbances.

3. Closely connected with this genetic relationship through common producers' goods is the relationship through business competition, both actual and potential. In so far as effective competition exists, a state of price-margins which makes any one trade more or less profitable than other trades in the same market cannot long maintain itself.

4. Present prices are affected by prices of the recent past and the anticipated prices of the near future. Indeed, present prices are largely determined by past bargains, with established time contracts. Thus the price system has no definable limits in time. No analysis

can get back to the ultimate term in the endless series of bargains which helped to make the prices of the present.

5. Nor has the series of prices any logical beginning or end. At whatever point analysis may start to follow the interlocking links, to that point analysis will come if it proceeds far enough. The system of prices is an endless chain.

Prices, then form a highly complex system of many parts connected with each other in diverse ways, a system infinitely flexible in detail, yet stable in the essential balance of its interrelations, a system like a living organism in its ability to recover from the serious disorders into which it periodically falls.

The most significant thing about it is the function it performs in the economic life of nations. It serves as a social mechanism for carrying on the processes of providing goods. For prices are the means which make possible the elaborate exchanges, and the consequent specialization which characterizes the modern world. They are the source from which family income is derived, and the means by which goods are obtained for family consumption; for both income and cost of living—the two jaws of the vise in which the modern family is squeezed—are aggregates of prices. Prices also render possible the rational direction of economic activity by accounting, for accounting is based upon the principle of representing all the heterogeneous commodities, services, and rights with which a business enterprise is concerned in terms of money price. Most important of all, the margins between different prices within the system hold out that hope of pecuniary profit which is the motive power that drives our business world.

98. The Sensitive Mechanism of Credit[3]

BY HAROLD G. MOULTON

It has become almost a trite saying that credit is the very life-blood of commerce and that without its wonderful assistance the enormous business of the modern world would be quite impossible. It is a commonplace, also, that the credit structure is a very uncertain mechanism, one that periodically expands to a breaking-point and involves hundreds of businesses in financial ruin, and indirectly demoralizes the commerce of an entire country. The precise manner in which this credit structure is built up, however, with its intricate and complicated interrelations, is not usually clearly understood. It is the purpose of the following analysis to trace these intricate

[3]Adapted from an article with the foregoing caption in a volume as yet unpublished.

relations, and show the complicated interdependences in the fabric of commercial credit.

Commerce relates to the movement of goods from the hands of those who perform the first operation in production to their final resting-place with the ultimate consumers. Commercial credit connects itself, therefore, with the various purchases and sales that are made in the slow process of marketing commodities. The nature and place of credit in the marketing process may perhaps best be made clear by assuming first a society that does business on a cash basis only.

To illustrate the process let us begin with some raw materials in the form of iron ore and coal which are to be manufactured into farm machinery for sale to farmers. These raw materials normally pass through the hands of the following classes of business men: (1) the manufacturer of machinery; (2) the wholesale dealer; (3) the retail merchant from whom they are purchased by the farmer. In the absence of credit the producer of raw materials would have to possess enough capital to defray the cost of producing these materials. He would sell them for cash to the manufacturer, who pays for them with ready money. In turn, the manufacturer, after having converted the materials into finished machines, sells them in a new form to the wholesale dealer, who pays for them out of funds accumulated for the purpose. The wholesaler next passes them on to the retailer for cash; and the retailer disposes of them to the farmer for cash. In each case cash accumulated and in hand ready for payment is the significant feature. We have thus far, however, but half completed the commercial circle.

The farmer does not purchase the machinery as an end in itself. With it he produces crops for sale. He sells his annual produce to a local dealer for cash; the local dealer sells these products to the commission merchant for cash; the commission merchant passes them on for cash to a retail store; and the storekeeper sells them for cash to his customers, who happen to be, let us assume, the laborers in the mines of iron and coal who were the original producers of the raw materials that went to the making of farm machinery. Thus we have the complete round of production.

In the foregoing analysis we have assumed each sale to be for cash; no one waits for his payments, and all keep the slate clear as they go. With such a method there is little danger of a general breakdown. If a purchaser has not the cash with which to pay for goods, he is refused the sale. Hence the seller is never dependent upon the future solvency of his purchaser. Sales may be restricted by a slackening of the industrial process; but there are never maturing obligations to meet, and there is never a chain of failures each

due to the previous one. Let us now introduce credit into the system as outlined above.

It is evident that the farmer who buys the farm machinery is the ultimate demander of the raw materials purchased by the manufacturer, and of course of the finished machines handled by the wholesaler and retailer respectively. In final analysis the farmer's cash pays for the labor of the workers in the mines of iron and coal. Or, traveling around the circuit in the opposite direction, it is the laborer's cash that really pays for crops of the farmer that have been produced by the farm machinery. Without credit, however, it is impossible for the precise cash paid by the farmer to the retailer to be used by the latter in paying the wholesaler and so on up to the producer of the raw materials. In introducing credit into this system it will be necessary to assume for the moment a situation that does not represent the actual state of affairs. The corrective will be given in the paragraph following.

Let us assume that the producer of raw materials possesses enough to produce $10,000 worth of raw materials, paying his laborers in advance. Now let us assume he sells these materials to the manufacturer on twelve months' time, that is, he agrees to wait twelve months for his pay. The manufacturer in the course of three months converts these raw materials into finished machinery and sells the machines on nine months' time to the wholesaler. In a month the wholesaler disposes of the machinery, letting the retailer have eight months in which to pay. In another month the retailer sells the machines to a farmer, agreeing to wait seven months. Four months later the farmer sells his crops on three months' time to a local dealer, who sells them in a month to a commission merchant on two months' time; the commission merchant in turn selling on one month's time to a retail store; and the retailer disposes of them within a month to the laborers who work in the mines for cash received by them for producing raw materials. Cash would thus be paid to the retailer of farm produce just twelve months from the date of the first sale of the raw materials; and if this cash should be passed on promptly through the hands of the commission merchant, local dealer, farmer, retailer, wholesaler and manufacturer to the original producer, it can liquidate all the obligations as per schedule.

In actual practice, however, twelve months would be a long time for the producer to wait for his payment. Similarly the periods of nine, eight and seven months would be too long for the others to wait; for further production would be more or less halted meanwhile. In practice, therefore, credit extensions are for much shorter periods, usually from one to four months, whether it be the pro-

ducer of raw materials, the manufacturer, or the middlemen. How is this made possible?

The manufacturer, for instance, may give his note to the producer for three months, and pay as soon as he sells to the wholesaler. The question now is, where does the wholesaler get the funds with which to pay; does he not have to wait until the retailer has disposed of the goods? This is where the banks come to the assistance of commerce. The wholesaler sells to the retailer on time, but instead of delaying his payment to the manufacturer, he procures a loan from his bank, giving as security therefor the notes received from the retailer. With this loan the wholesaler may pay the manufacturer at once. The loan from the bank is repaid when the retailer settles with the wholesaler. The bank therefore undertakes the waiting instead of the dealer.

In the foregoing illustration it was the wholesaler who procured the loan from the bank. It may in fact, however, be any one or several in the chain of buyers and sellers. The manufacturer, for instance, instead of asking the wholesaler to pay cash could accept a promissory note, and then sell this note to a bank for cash, that is, have it discounted. Or the retailer might borrow from a bank and pay cash to the wholesaler. Similarly, on the other side of the circle, the commission merchant may pay cash to the local dealer, borrowing from a bank for the purpose; and the retailer of the foodstuffs may sell to his customers on credit, and borrow from a bank while waiting for his returns. It is quite immaterial which party procures the assistance of the banks; though in practice it usually becomes the custom for only certain ones in the chain to do so. In this country it is usually the manufacturers and the commission merchants who pay cash.

The commercial structure which we have thus outlined is seen to be very closely interrelated; and it is because of this interdependence of factors that a "credit breakdown" has such far-reaching consequences. The credit circle cannot be disrupted at any point without more or less seriously disrupting the entire system. Suppose, for instance, that a long drouth or heavy rains ruin the agricultural produce and render it impossible for the farmer to pay the retailer as promised. This affects the retailer's ability to pay the wholesaler, and in turn the wholesaler's ability to pay the manufacturer, or his bank, and so on around the entire circle. Or suppose a strike in the manufacturing establishment should prevent the manufacturer from filling his selling orders. It becomes impossible for him to pay the producer on time; and the latter in turn becomes unable to meet his obligations as they become due. The halting of the manufacturing process may compel the producer to restrict his

output of raw materials, and hence discharge laborers. This affects the sales of the retailer of the farm produce, and hence his ability to pay the commission merchant, and so on around the circle. Numerous other examples of this sort might obviously be given.

Whenever there is a break in the delicate structure at any point, there is always an attempt to stop the gap by calling upon the banks for assistance. Whoever finds himself unable to pay on time rushes to his banker for a loan. Indeed if there is but a well-grounded fear that difficulties are likely to come, dealers often go at once to the banks for loans in anticipation of trouble to come. Without going into an analysis of the responsibility thus placed upon the banking institutions, it should be emphasized that the success with which a community may pass through a period of disrupted credit operations depends upon the ability of the banks to expand their own credit sufficiently to tide the commercial world over the emergency.

99. The "Planlessness" of Production[4]

BY WESLEY C. MITCHELL

With technical experts to guide the making of goods, business experts to guide the making of money, lenders to review all plans requiring large investments, and government to care for the public welfare, it may seem that the money economy provides a staff and a procedure adequate to the task of directing economic activity, vast and difficult though that task may be. This impression is strengthened by observing that each class of business leaders is spurred to efficiency and deterred from recklessness by danger of pecuniary loss. The engineer who blunders is discharged, the enterpriser who blunders goes into bankruptcy, the lender who blunders loses his money. Thus the guides who misdirect the industrial army are always being eliminated. On the other hand, those who succeed are constantly being promoted to posts of wider power.

With this powerful stimulus of individual efficiency, the money economy unites an opportunity for co-operation on a grand scale. By paying money prices, the leaders can enlist the aid of laborers who contribute work of all kinds, of expert advisers who contribute special knowledge, of landlords who contribute the uses of their property, and of investors who contribute the uses of their funds. And all these classes can be made to work in disciplined order toward the execution of a single plan.

The union between encouragement of individual efficiency and opportunity for wide co-operation is the great merit of the money

[4]Adapted from *Business Cycles*, 37–40. Copyright by the author (1913). Published by the University of California Press.

economy. It provides a basis for what is unquestionably the best system for directing economic activity which men have yet practiced. Nevertheless, the system has serious limitations.

1. The money economy provides for effective co-ordination of effort within each business enterprise, but not for effective co-ordination of effort among independent enterprises.

The two schemes differ in almost all respects. Co-ordination within the enterprise is the result of careful planning by experts; co-ordination among independent enterprises cannot be said to be planned at all; rather is it the unplanned result of natural selection in a struggle for business survival. Co-ordination within an enterprise has a definite end—the making of profits; co-ordination among independent enterprises has no definite end, aside from the conflicting aims of the several units. Co-ordination within an enterprise is maintained by a single authority possessed of power to carry its plans into effect; co-ordination among independent enterprises depends upon many different authorities contending with each other, and without power to enforce a common program except so far as one can persuade or coerce others. As a result of these conditions co-ordination within an enterprise is characterized by economy of effort; co-ordination among independent enterprises by waste.

In detail, then, economic activity is planned and directed with skill; but in the large there is neither general plan nor general direction. The charge that "capitalistic production is planless" therefore contains both an important element of truth and a large element of error. Civilized nations have not yet developed sufficient intelligence to make systematic plans for the sustenance of their populations; they continue to rely upon the badly co-ordinated efforts of private initiative. Marked progress has been made, however, in the skill with which the latter efforts are directed.

2. But the managerial skill of business enterprises is devoted to money-making. If the test of efficiency in the direction of economic activity be that of determining what needs are most important for the common welfare and then satisfying them in the most economical manner, the present system is subject to a further criticism. For, in nations where a few have incomes sufficient to gratify trifling whims and where many cannot buy things necessary to maintain their own efficiency, it can hardly be argued that the goods which pay best are most needed. It is no fault of business leaders that they take prospective profits as their guide. They are compelled to do so; for the men who mix too much philanthropy with business soon cease to be leaders. But a system of economic organization which forces men to accept so artificial an aim as

pecuniary profit cannot guide their efforts with certainty toward their own ideals of public welfare.

3. Even from the point of view of business, prospective profit is an uncertain flickering light. Profits depend upon two variables, on margins between selling and buying prices, and on the volume of trade. These are related to each other in unstable fashion and each subject to perturbations from a multitude of unpredictable causes. That the system of prices has its own order is clear; but it is not less clear that the order fails to afford certainty of business success. Men of long experience and proved sagacity often find their calculations upset by conjunctures which they could not anticipate. Thus the money economy confuses the guidance of economic activity by interjecting a large element of chance into every business venture.

4. The hazards to be assumed grow greater with the extent of the market and with the time that elapses between the initiation and the fruition of an enterprise. But the progress of industrial technique is steadily widening markets, and requiring heavier investments of capital for future production. Hence the share in economic leadership that falls to lenders, that of receiving the various chances offered them for investment, presents increasing difficulties. And a large proportion of these investors, particularly the lenders on long time, lack the capacity and the training for the successful performance of such work.

These defects in the system of guiding economic activity and the bewildering complexity of the task itself allow the processes of economic life to fall into those recurrent disorders which constitute crises and depressions.

B. THE ECONOMIC CYCLE

100. The Periodicity of Commercial Crises[5]

BY J. S. NICHOLSON

Attention has often been called to the periodicity of crisis. After the occurrence of a crisis, there is, in general, a period of depression with restricted confidence and want of enterprise. That the depression is real, in the sense of affecting the producing and consuming powers of the people, is shown by various kinds of statistics. There is, in general, a falling off in the employment of labor and an increase in pauperism; as regards capital, falling profits are shown by the income tax returns, and the contraction of enterprise

[5]Adapted from *Principles of Political Economy,* II, 211–214 (1893).

is evidenced by the reduction in the flotation of companies; the slackening of trade is revealed by the statistics of exports and imports, by the diminution of the returns of the clearing-houses and railway receipts; and the yield to taxes on commodities shows directly the decrease in consuming power. A low rate of interest, an abundance of "money," a fall in all the more speculative securities, especially compared with those of the first class, point to a contraction of enterprise and a check to the expansion of industry.

Gradually the period of depression gives place to a steady quiet improvement, which is shown by similar statistical evidence. As a rule, also, there is a slight upward movement in the prices of commodities, and of the securities with dividends dependent on trade. An improved demand for "money" is shown by the gradual rise in the rate of discount and a corresponding fall in the price of first-class securities with fixed interest. The period of steady prosperity, in its turn, gives way to a period of inflation culminating in a crisis.

It is hazardous to express an opinion on the causes of periodicity at a time when the periodicity itself seems questionable, but I venture to suggest that the causes should be sought for rather in mental than in physical phenomena. The most striking features in the well-marked cycles up to 1866 were the contraction, expansion, inflation and final explosion of credit. The cycles were especially credit cycles, and the effects on trade were apparently indirect. No one now will question the importance of the organization of credit in production and consumption. But credit, although requiring for its full development certain material appliances, is essentially mental. Nothing, however, is more characteristic of mental phenomena than the oscillations between periods of depression, recovery and exaltation. This is shown in an exaggerated form in nervous disorders. It may well happen that the fear and distrust excited by a panic fade away in two or three years and give place to a sense of security, which in turn engenders over-confidence, and finally speculative mania. Of course some people will remain relatively cautious, and indeed the great mass of business may be conducted on sound principles, but it is sufficient to account for the phenomena if any considerable section of the financial world goes through these emotional stages. The sympathy of markets is well known, both in inflation and depression. The failure in recent years of the periodicity to assert itself in so marked a manner as before may be due to some great restraining influence, such as the continuous fall in prices, or the suppressed fear of the outbreak of a general war.

101. The Rhythm of Business Activity[6]

BY WESLEY C. MITCHELL

With whatever phase of the business cycle analysis begins, it must take for granted the conditions brought about by the preceding phase, postponing explanation of these assumptions until it has worked around the cycle and come again to its starting-point.

A revival of activity, then, starts with a legacy from depression: a level of prices low in comparison with the prices of prosperity, drastic reductions in the costs of doing business, narrow margins of profit, liberal bank reserves, a conservative policy in capitalizing business enterprises and in granting credits, moderate stocks of goods, and cautious buying.

Such conditions are accompanied by an expansion in the physical volume of trade. Though slow at first, this expansion is cumulative. In time an increase in the amount of business which grows more rapid as it proceeds will turn dulness into activity. Left to itself this transformation is effected by slow degrees; but it is often hastened by some propitious event, such as exceptionally profitable harvests, or heavy purchases of supplies by the government.

A partial revival of industry soon spreads to all parts of the business field. For the active enterprises must buy materials and current supplies from other enterprises, the latter from still others, etc. Meanwhile all enterprises which become busier employ more labor, use more borrowed money, and make higher profits. There results an increase in family incomes and an expansion of consumers' demands, which likewise spreads out in ever-widening circles. Shopkeepers pass on larger orders to wholesale merchants, manufacturers, importers, and producers of raw materials. All these enterprises increase the sums they pay to employees, lenders, and proprietors. In time the expansion of orders reaches back to the enterprises from which the initial impetus was received, and then the whole complicated series of reactions begins afresh at a higher pitch of intensity. All this while the revival of activity is instilling a feeling of optimism among business men.

The cumulative expansion of the physical volume of trade stops the fall in prices and starts a rise. For, when enterprises have in sight as much business as they can handle with existing facilities, they stand out for higher prices on additional orders. This policy prevails because additional orders can be executed only by breaking in new hands, starting new machinery, or buying new equipment.

[6]Adapted from *Business Cycles*, 571–579. Copyright by the author (1913). Published by the University of California Press.

The expectation of its coming hastens the advance. Buyers are anxious to secure large supplies while the quotations continue low, and the first signs of an upward trend bring out a rush of orders.

The rise of prices spreads rapidly; for every advance puts pressure on someone to recoup himself by advancing the prices of what he has to sell. The resulting changes in price are far from even: retail prices lag behind wholesale, and the price of finished products behind the price of their raw materials. Among the last-mentioned the prices of mineral products reflect changed business conditions more regularly than do the prices of forest and farm products. Wages rise more promptly, but in less degree than wholesale prices; interest rates on long loans always move sluggishly in the earlier stages of revival, while the prices of stocks both precede and exceed commodity prices on the rise.

In a great majority of enterprises larger profits result from these divergent fluctuations coupled with the greater physical volume of sales. For while the prices of raw materials and of bank loans often rise faster than selling prices, the prices of labor lag far behind, and the prices making up supplementary costs are mainly stereotyped by old agreements.

The increase of profits, under the spell of optimism, leads to a marked expansion of investments. The heavy orders for machinery, the large contracts for new construction, etc., which result, swell still further the physical volume of business, and render yet stronger the forces which are driving prices upward.

Indeed, the salient characteristic of this phase of the business cycle is the cumulative working of the various processes which are converting a revival of trade into intense prosperity. Not only does every increase in the volume of trade cause other increases, every convert to optimism make new converts, and every advance in price furnish an incentive for new advances; but the growth of trade also helps to spread optimism and to raise prices, while optimism and rising prices support each other. Finally the changes going forward swell profits and encourage investments, while high profits and heavy investments react by augmenting trade, justifying optimism, and raising prices.

While the processes just sketched work cumulatively for a time to enhance prosperity, they also cause a slow accumulation of stresses within the balanced system of business—stresses which ultimately undermine the conditions upon which prosperity rests.

Among these is the gradual increase in the cost of doing business. The decline in supplementary costs per unit ceases when enterprises have secured all the business they can handle with their standard equipment, and a slow increase in these costs begins when

the expiration of old contracts makes necessary renewals at higher rates. Meanwhile prime costs rise at a relatively rapid rate. The price of labor rises both because of an advance in nominal wages and because of higher rates for overtime. More serious is a decline in the efficiency of labor, because of the employment of undesirables, and because crews cannot be driven at top speed when jobs are more numerous than men. The prices of raw material rise faster on the average than the selling prices of products. Finally numerous small wastes creep up when managers are hurried by the press of orders.

A second stress is the accumulating tension of investment and money markets. The supply of funds available at the old rates fails to keep pace with the swelling demand. It becomes difficult to negotiate new issues of securities except on onerous terms, and men of affairs complain of the "scarcity of capital." Nor does the supply of bank loans, limited by reserves, grow fast enough to keep up with the demand. Active trade keeps such an amount of money in circulation that the cash left in the banks increases rather slowly. On the other hand, the demand for loans grows, not only with the physical volume of trade, but also with the rise of prices, and with the desire of men of affairs to use their own funds for controlling as many businesses as possible.

Tension in the bond and money markets is unfavorable to the continuance of prosperity, not only because high rates of interest reduce the prospective margins of profit, but also because they check the expansion of the volume of trade out of which prosperity develops. Many projected ventures are relinquished because borrowers conclude that interest would absorb too much of their profits.

The group producing industrial equipment suffers especially. In the earlier stages of prosperity this group enjoys exceptional activity. But when the market for bonds becomes stringent and the cost of construction high, business enterprises defer the execution of plans for extending old or erecting new plants. As a result contracts for this kind of work become less numerous as the climax of prosperity approaches. Then the steel mills, foundries, machine factories, lumber mills, construction companies, etc., find their orders for future delivery falling off.

The larger the structure of prosperity, the more severe become these internal stresses. The only effective means of preventing disaster while continuing to build is to raise selling prices time after time high enough to offset the encroachment of costs upon profits, and to keep investors willing to contract for fresh industrial equipment.

But it is impossible to keep selling prices rising for an indefinite time. In default of other checks, the inadequacy of cash reserves would ultimately compel the banks to refuse a further expansion of loans on any terms. But before this stage has been reached, the rise of prices is stopped by the consequences of its own inevitable inequalities. These become more glaring the higher the general level is forced; after a time they threaten serious reductions of profits to certain business enterprises, and the troubles of these victims dissolve that confidence in the security of credits with which the whole towering structure of prosperity has been cemented.

In certain lines in which selling prices are stereotyped by law, by contracts for long terms, by custom, or by business policy, selling prices cannot be raised to prevent a reduction of profits. In other lines prices are always subject to the incalculable chances of the harvests. In some lines the recent construction of new equipment has increased the capacity for production faster than the demand for the wares has expanded under the repressing influence of high prices. The unwillingness of investors to let fresh contracts threatens loss not only to the contracting firms but to the enterprises from which they buy materials. Finally the success of some enterprises in raising prices fast enough to defend their profits aggravates the difficulties of the men who are in trouble.

As prosperity approaches its height, then, a sharp contrast develops between the business prospects of different enterprises. Many are making more money than at any previous stage in the business cycle. But an important minority faces the prospect of declining profits. The more intense prosperity becomes, the larger grows this threatened group. In time these conditions bred by prosperity will force radical readjustment.

Such a decline of profits threatens consequences worse than the failure to realize expected dividends. For it arouses doubt about the future of outstanding credits. Business credit is based primarily upon the capitalized value of present and prospective profits, and the volume of credits outstanding at the zenith of prosperity is adjusted to the great expectations which prevail when affairs are optimistic. The rise of interest rates has already narrowed the margins of security behind credits by reducing the capitalized value of given profits. When profits begin to waver, creditors begin to fear lest the shrinkage in the market rating of business enterprises which owe them money will leave no adequate security for repayment. Hence they refuse renewals of old loans to enterprises which cannot stave off a decline in profits, and press for settlement of outstanding accounts.

Thus prosperity ultimately brings on conditions which start a liquidation of the huge credits which it has piled up. And in the course of this liquidation prosperity merges into crisis. Once begun the process of liquidation extends rapidly, partly because most enterprises called upon to settle put similar pressure on their own debtors, and partly because news presently leaks out and other creditors take alarm.

While this financial readjustment is under way, the problem of making profits is subordinated to the more vital problem of maintaining solvency. Business managers nurse their financial resources rather than push their sales. In consequence the volume of new orders falls off rapidly. The prospect of profits is dimmed. Expansion gives place to contraction. Discount rates rise higher than usual, securities and commodities fall in price, and working forces are reduced. But there is no epidemic of bankruptcy, no run upon banks, and no spasmodic interruption of ordinary business processes.

Crises, however, may degenerate into panics. When the process of liquidation reaches a weak link in the chain of interlocking credits and the bankruptcy of some conspicuous enterprise spreads unreasoning alarm, the banks are suddenly forced to meet a double strain—a sharp increase in the demand for loans and in the demand for repayment of deposits. If the banks meet both demands, the alarm quickly subsides. But if many solvent business men are refused accommodation at any price, and depositors are refused payment in full, the alarm turns into a panic. A restriction of payments by banks gives rise to a premium upon currency, to hoarding of cash, and to the use of various unlawful substitutes for money. Interest rates may go to three or four times their usual figures, causing forced suspensions and bankruptcies. There follow appeals to the government for extraordinary aid, frantic efforts to import gold, the issue of clearing-house loan certificates, and an increase in bank-note circulation as rapidly as the existing system permits. Collections fall into arrears, workmen are discharged, stocks fall to extremely low levels, commodity prices are disorganized by sacrifice sales, and the volume of business is violently contracted.

There follows a period during which depression spreads over the whole field of business and grows more severe. Consumers' demand declines in consequence of wholesale discharge of wage-earners. With it falls the business demand for raw materials, current supplies, and equipment. Still more severe is the shrinkage in the investors' demand for construction work of all kinds. The contraction in the physical volume of business which results from these shrinkages in demand is cumulative, since every reduction of

employment causes a reduction in consumers' demand, thereby starting again the whole series of reactions at a higher pitch of intensity.

With this contraction goes a fall in prices. For when current orders are insufficient to employ the existing equipment, competition for business becomes keener. This decline spreads through the regular commercial channels which connect one enterprise with another, and is cumulative, since every reduction in price facilitates reductions in other prices, and the latter reductions react to cause fresh reductions at the starting-point.

The fall in prices is characterized by certain regularly recurring differences in degree. Wholesale prices fall faster than retail, and the prices of raw materials faster than those of manufactured products. The prices of raw mineral products follow a more regular course than those of forest or farm products. Wages and interest on long-time loans decline in less degree than commodity prices. The only important group of prices to rise is high-grade bonds.

The contraction in the volume of trade and the fall in prices reduce the margin of present and prospective profits, spread discouragement, and check enterprise. But they also set in motion certain processes of readjustment by which the depression is overcome.

The prime costs of doing business are reduced by the fall in the prices of raw material and of bank loans, by the marked increases in the efficiency of labor which comes when employment is scarce, and by closer economy by managers. Supplementary costs are reduced by reduction of rentals and refunding of loans, by writing down depreciated properties, and by admitting that a recapitalization has been effected on the basis of lower profits.

While costs are being reduced, the demand for goods begins slowly to expand. Accumulated stocks left over from prosperity are exhausted, and current consumption requires current production. Clothing, furniture and machinery are discarded and replaced. New tastes appear among consumers and new methods among producers, giving rise to demand for novel products. Most important of all, the investment demand for industrial equipment revives. Capitalists become less timid as the crisis recedes into the past, the low rates of interest on long-time bonds encourages borrowing, and contracts can be let on most favorable conditions.

Once these forces have set the physical volume of trade to expanding, the increase proves cumulative. Business prospects become gradually brighter. Everything awaits a revival of activity which will begin when some fortunate circumstance gives a fillip to demand, or, in the absence of such an event, when the slow growth

of the volume of business has filled order books and paved the way for a new rise in prices. Such is the stage of the business cycle with which the analysis begins, and, having accounted for its own beginning, the analysis ends.

C. THE ANTECEDENTS OF CRISES

102. The Causes of the Panic of 1893[7]

BY W. JETT LAUCK

But what was the local and the true cause of the crisis of 1893 in this country? It cannot be said to have been due to a scarcity of money in the United States at that time. During the entire period 1878-93 the amount of money in circulation more than doubled. Consequently the money supply was ample. On the other hand, it cannot be maintained that the crisis of 1893 was caused by an extension of the mercantile credits such as brought about the disastrous collapse of 1873, for business houses and industrial establishments during the period 1891-93, instead of extending, were curtailing their operations, and were arranging their plans in the expectation of a breakdown in the financial machinery of the country. They could not have engaged in any extended or hazardous activities if they had been inclined to do so, for the reason, as already seen, that very little, if any, foreign capital was obtainable for investment in the United States after 1891, and American capital likewise refused to enter into doubtful financial or industrial undertakings. So far as the withdrawal of foreign and domestic funds, however, brought about industrial and business disaster, it was not a direct cause of the crisis, but only the result which flowed out of the operation of the primary and fundamental cause.

This cause to which the crisis of 1893 is directly and wholly attributable consisted of a widespread fear, both at home and abroad, that the United States would not be able to maintain a gold standard of payments. The very nature of the crisis itself bears out this conclusion. It was essentially a monetary crisis, and its typical feature consisted in the numerous failures of banks and financial institutions. Moreover, the precipitation of and the recovery from the crisis furnishes additional evidence to bear out the foregoing claim. The beginning of the crisis was marked by the decline of the Treasury gold reserve, on April 22, below the $100,000,000 limit; the ending of the resultant industrial and financial chaos dated

[7]Adapted from *The Causes of the Panic of 1893,* 118–121. Copyright by Hart, Schaffner & Marx (1907).

from the assurance, on August 28, of the repeal of the Silver Law of 1890.

The apprehension in 1893 as to the fixity of the gold standard of payments arose indirectly out of the silver agitation and legislation during the period 1878-90, and was directly traceable to the operation of the Sherman Silver Purchase Law of 1890. For seventeen years, 1878-90, the gold standard of payments was constantly threatened, and the crisis of 1893 was practically the culmination of this long period of uncertainty. Under the operation of the Silver Act of 1878, the country received a serious shock to its confidence in the fixity of the gold standard. During the two years, 1884-86, when the silver issues of the country became redundant, the distrust in the ability of the Treasury to maintain gold payments became so great that gold was withheld in the payments of customs duties, and silver certificates were worked off on the Treasury. Additions to the Treasury's supply of gold were thus cut off, and the gold reserve declined to $115,000,000. As a consequence, apprehension as to the maintenance of gold payments became widespread, and a panic was narrowly averted. As it was, the stream of silver was only prevented from overflowing the Treasury by the action of the Treasury officials in employing artificial devices to create a vacuum in the circulation.

The advocates of the free coinage of silver, however, held the balance of political power during the first session of the Fifty-first Congress, and as a result of their agitation the Sherman Law was passed, which almost doubled the amount of silver obligations annually issued by the Government. The currency of the country soon became redundant, and silver certificates and Treasury notes were used in the payments of public dues, while gold was hoarded. Consequently the Treasury gold reserve rapidly declined, and fear for the maintenance of the standard again arose. Foreign investors and exporters saw the danger in the situation even before the people of this country, and began to withdraw the funds which they had invested in this country during the period 1886-90. Moreover, they called for the payment of trade balances in gold. Gold was, therefore, demanded for export. But the banks in the United States were hoarding gold, and gold for export could practically be obtained only by the presentation of legal-tender notes at the Treasury for redemption. This operation caused a further inroad upon the Treasury gold reserve. Larger amounts of funds were drawn from the country, and increasing amounts of gold flowed out of the Treasury in the redemption of legal-tenders. The limit was finally reached on April 22, 1895, when the gold reserve fell below the danger-line.

At that time the fears of the public over the question of the standard of payments reached a climax.

As soon as it became known that the gold reserve of the Treasury had declined below the danger-point of $100,000,000 the apprehension relative to the fixity of the standard developed into a panic. There was an immediate rush to realize on all descriptions of property before the gold standard was abandoned. The public were afraid of the adoption, as the standard of payments, of a silver dollar which was worth only fifty cents in gold. At the same time overwhelming demands were made upon the banks to pay their accounts in gold or specie, and the cash thus obtained by depositors was hoarded and the existing money supply contracted. Under these conditions gold seemed scarce. In reality gold was only relatively scarce in comparison with the abnormal offering of property for sale on account of the fear of the silver standard. In the face of the universal demand, however, to convert property into cash or some other liquid form of exchange, those having obligations to meet found it impossible to secure funds, and the result was soon seen in widespread industrial and financial disaster.

103. The Irrepressible Crisis[8]

BY W. H. LOUGH, JR.

We may make a list of twelve factors to be considered in sizing up the present situation. They are arranged approximately in inverse order to their immediate influence.

1. The state of the public mind.
2. Production and volume of credit in extractive industries.
3. Production and volume of credit in manufacturing industries.
4. Production and volume of credit in transportation industries.
5. Output of mortgages and bonds.
6. Output of credit currency.
7. Output of loans and discounts.
8. Output of book credits.
9. Trend of general prices.
10. Treasury and bank reserves of cash.
11. Output of gold.
12. Tendency of foreign exchange.

[8]Adapted from an article in *Moody's Magazine,* III, 586–592. Copyright (April, 1907). This article was outlined in February, 1907, and barely missed getting into the March number of *Moody's* in which editorial mention of it was made. Its statements as to financial weakness were, at least in part, verified by the extreme declines in security values during the month of March.

If we could get complete and accurate information about each one of these twelve factors we could come to some definite and practically certain conclusion as to the business future. Suppose we try to sum up briefly the data available at present about each of the factors named.

1. It is obvious that neither over-confidence nor speculative mania is or has been especially strong. On the contrary, intelligent opinion is notably conservative. Retrenchment, not headlong expansion, is the order of the day. Land booms have been reported from various parts of the country, but apparently they have not been attended with the excitement that has existed in such cases at other times.

2. The extractive industries, agriculture and mining, have made new records in volume of production in the year just passed without interfering with prices to any marked extent. The yields of corn and winter wheat were greater than ever before. Other crops were, on the whole, extraordinary, and 1906 came as the climax of several previous years of large agricultural output. The prospects for 1907 are favorable.

3. Manufacturing industries, as is well known, have made great strides in the last three years. To take two examples which happen to be at hand, we find new buildings contracted for in 1906 worth $750,000,000 and we find an output of 25,000,000 tons of pig iron in 1906, against 23,000,000 tons in 1905, the best previous year. The pig iron was used largely for structural steel and railroad equipment. A falling off in the demand for these two products would undoubtedly affect a great amount of outstanding securities, and short time credit. In the opinion of excellent judges, a decline in the demand is already at hand, and will in all probability become more evident as the year progresses. As to other lines of manufacturing we may say, in general, that production is large and increasing, but apparently not yet excessive.

4. New railroad trackage built in 1906 reached a total of over 6,000 miles; but this new mileage is nothing compared to that contemplated for the next few years. The Northwestern railroads are especially active, and in that region the "era of competitive railroad building," predicted by E. H. Harriman, is at hand. What the effects will be on the large volume of new railroad stocks remains to be seen. Within the last two months railroad managers have begun to move a little more slowly in extending and improving their lines. Nevertheless railroad rebuilding and enlargement is still progressing on a great scale, for transportation facilities are plainly inadequate.

5. In considering long time debts, we should note first the striking unpopularity of bonds with the investing public. The reluctance of investors to put their money into mortgages and bonds is, of course, a natural result of high prices and big semi-speculative profits, which make bond returns look small.

6. In the amount of credit currency issued by the government we find, of course, no important change in the last few years. The volume of bank notes outstanding, however, has steadily increased from $172,000,000, in 1894, to about $585,000,000, now. The fact that the increase has been brought about by more liberal laws and by the lowered price of government bonds, rather than by business demands, naturally leads us to suspect its stability.

7. The present status of bank loans and discounts is best indicated by the following totals of this item for all national banks: 1896, $1,873,000,000; 1900, $2,710,000,000; 1906, $4,300,000,000. These are most surprising figures in view of the comparatively slight increase in population and real capital during the same period. They grow more astonishing still when we think of the great increase in other banking business during the last ten years. The rate of increase would be almost beyond belief if the figures were not thoroughly trustworthy.

8. Under the term "book credits" I mean to include all the great body of accommodation extended by merchants to individual customers and by wholesalers to retail firms. Of course it is impossible to compute its amount. All we can say is that, beyond question, it must exceed in volume anything that this country has ever previously known. If a wave of credit restriction should set in, a great many individuals and firms would be compelled to shorten sail in a hurry.

9. The trend of general prices in the last few years is too well known to call for much discussion. Dun's index numbers for a few years past are as follows: 1897, 75.5; 1898, 79.9; 1899, 80.4; 1900, 95.3; 1901, 95.7; 1902, 101.6; 1903, 100.4; 1904, 100.1; 1905, 100.3; 1906, 105.2. These prices are the inevitable result of the output of gold and of credit during this period.

10. The total gold coin and certificates in circulation in the United States was, in 1896, $497,000,000; in 1900, $811,000,000; in 1906, $1,263,000,000. The total national bank reserves of lawful money, in September, 1896, was $343,000,000; in 1900, $520,000,000; in 1906, $626,000,000. The ratio of cash on hand to deposits at corresponding periods of the last few years has been: 1896, 19.1%; 1900, 15.9%; 1901, 14.7%; 1902, 13.2%; 1903, 14.3%; 1904, 15%; 1905, 14%; 1906, 12.7%. Looking over the banking field, we see a general downward tendency in the proportion of cash reserves

to the credit piled up on the reserves. Unless the downward tendency be reversed, according to all experience, the result will be disastrous. It is in order, then, to see what the prospect is of relieving the situation by large additions of cash.

11. The annual gold production of the world has increased from $202,000,000, in 1896, to over $400,000,000, in 1906, and the outlook is for a still greater production next year. But, sooner or later, the rising tide of prices is certain to cut off the less profitable production and lead to a restriction of output.

12. We turn, as a last source of temporary relief, to the other commercial nations in the hope that from them the United States may draw additional supplies of gold. The principal foreign banks of the world are estimated to hold about $4,000,000,000 specie, including both gold and silver. The whole commercial world seems deluged with prosperity. No nation and no bank has too much gold. On the contrary, every one is reaching eagerly for more on which to base an enlarged issue of credit. American banks will seek in vain in foreign markets for sufficient additions to their cash reserves.

The experience of the last hundred years indicates that the forces now at work are driving us straight toward a crisis,—and I mean by crisis not a Wall Street flurry, such as we have lately seen, which may come at any time from purely local influences, but a general, temporary break-down of industry. With credit everywhere expanded to the danger point, we are in a position from which only two means of escape are possible. One is a large and rapid increase in our gold reserves, which is out of the question. The other is a progressive restriction of credit, necessarily gathering momentum as it proceeds, which is another name for crisis. Just when or how the wave of credit withdrawals will start no one can tell. A big failure or a rash bit of legislation, or any one of a hundred incidents, which under normal conditions would do little harm, might set it going.

So long as the decisive incident does not occur,—and, of course, it may not come very soon, possibly not for two or three years,—prices keep on rising and credit keeps piling up. For that reason the longer it is delayed the harder jolt it is likely to give.

104. Industrial Conditions Preceding the Panic[9]

It did not take a prophet to foretell that, following the three months' decline in the price of stocks which culminated in the severe declines in March, a business depression would follow. The lessons

[9]Adapted from an editorial in *Moody's Magazine,* IV, 103–109. Copyright (July, 1907).

of history make it certain that industrial contraction begins soon after a great decline in stock prices occurs. A few long-headed men last fall saw plenty of trouble ahead and began to prepare for it by unloading stock at high prices. Not, however, until the middle of March were there plenty of bears in evidence. Although financial experts worked overtime in March to convince us that the decline was temporary, due to mischievous legislation, close observers noticed within a few weeks after the collapse that the demand for luxuries, like diamonds, automobiles, and pianos, began to decline. Soon the railroads began to curtail improvements; then manufacturers of electric supplies began to lay men off; then we read that the department stores of New York had discharged 2,000 employees, and expected to discharge 4,000 more; next we heard that manufacturers in various lines were curtailing output, and that many big wholesale merchants had instructed their buyers in Europe to curtail purchases. A little later there appeared statistics of many kinds that indicate a shrinkage in business. Bank clearings, railroad earnings, smaller volume of business, and unsuccessful strikes are some of the evidences of the depression already upon us.

Because of the destruction of old capital and new issues of securities calling for more and more new capital as well as the unparalleled construction of buildings and permanent improvements, turning circulating into fixed capital, the banking situation is now about the worst ever known. Never were liabilities so great and cash reserves lower in proportion to liabilities. Gradually conditions appear to be growing worse instead of better. The forced liquidation in bonds and stocks had not this year been sufficient to improve the credit situation.

The depreciation in shares is due to the rise in the price of capital. The development of industrial enterprise has recently been too rapid for available capital. The one great cause is the lack of capital to carry on the world's business on the scale now planned. The industrial and financial world has overreached itself. Although new capital is being created faster than ever before, the supply is not equal to the demand, and the business of the world must slacken for awhile.

That the cash reserves of the world are low, as compared with banking liabilities, is beyond question. In this country the surplus reserve, as shown by the New York bank statement of July 6, was $856,250. This is the first time since 1893 that the surplus reserve has fallen below $5,000,000, for the first week in July. Even more significant is the fact that loans have been increasing steadily in proportion to deposits, and that they now exceed deposits by 3.4%.

In 1905 deposits exceeded loans by about 4%. These figures indicate an unstable equilibrium in the business world.

If these statistics are a fair index, the business world is today insolvent, under panic conditions. It owes more than it can pay, except by further borrowing from the banks. All that is necessary to precipitate a panic under such conditions is for the solvent portion of the depositors to become frightened and to withdraw their bank deposits. The banks will then be compelled to call loans and to demand payment from the insolvent portion. Since only 5.6% of the resources of the banks are in cash, it is probable that many national banks are in a weak condition. Possibly the brakes will yet be applied in time to prevent serious trouble and to enable us to pass through the coming financial ordeal with a very slight reaction.

105. The Arrested Crisis of 1907[10]

BY EDWIN R. A. SELIGMAN

The crisis of 1907 is on the whole not comparable in magnitude to that of 1857 or that of 1873. The reasons for this may be classified under five heads.

In the first place, the very magnitude of the country's resources has been a favorable factor. The unparalleled prosperity of the last decade has made possible the accumulation of vast reserves, not only by great corporations, but also by average business men. This reserve has acted as a buffer to the shock of reaction and has softened the impact through a speedy restoration of confidence in the excellence of the country's assets and in the real solvency of business.

Secondly, the crops have been large and valuable. It must be remembered that, notwithstanding all recent developments, this country is still primarily agricultural and that upon our great crops depends in large measure the effective demand which sets and keeps in motion the wheels of business activity. By a fortunate coincidence the crisis was attended by a phenomenon which in ordinary times would have spelled prosperity, and which helped to bring back normal conditions.

In the third place, the overcapitalization of values was somewhat less conspicuous than hitherto in transportation. Some former crises

[10]Adapted from "The Crisis of 1907 in the Light of History," in *The Currency Problem and the Financial Situation,* xx-xxv. Copyright by the Columbia University Press (1908).

have been brought on primarily by the speculative building of railroads. During the past five years the annual increment of construction has been only four or five thousand miles. The consequence has been that with the rapid upbuilding of the country the railways have grown up to their capitalization. For some time there has been scarcely any overcapitalization. A striking proof of the absence of any real discrepancy between normal values and capitalization of earning capacity is afforded by the congestion of traffic a year or two ago.

Fourthly, the crisis was preceded by a period of gradual liquidation. General prices of commodities, with a few notable exceptions, like that of copper, were indeed high until well-nigh the outbreak of the panic. But the price of securities had for some time undergone a marked shrinkage. This was caused chiefly by the rise in the rate of interest. In fact the one phenomenon is really the other; for where earnings remain unchanged, the capitalization of the earnings depends upon the rate of interest.

The rise in the interest rate was due in part to the increase in the gold output; for an increase in the supply of standard money raises not only the price level of all commodities, but the price of the use of capital, which we call the general rate of interest. In part the increase was due to the relatively smaller amount of capital available for investment. The fund of free capital has been diminishing for the last few years. Hundreds of millions were destroyed by the Boer and Japanese wars; hundreds of millions more disappeared through the destruction of San Francisco and Valparaiso; and countless millions in addition have been utilized to finance the more or less dubious schemes which have sprung up in all countries during the years of prosperity. Despite the lack of general overcapitalization, the discounting of the future was not ample, and the capital was invested more rapidly than the immediate returns would warrant. The replacement fund, in other words, was neither quite large enough nor quite active enough; and with the gradual exhaustion of the available free capital, interest rates necessarily rose and security values as a consequence fell.

The period of liquidation was thus a fortunate event. By checking the movement of exaltation, and preventing the level of prices from being so extreme, it kept the reaction from being so great. Where the crest of the wave is lower, the shock of the break is less. Had the ascent of prices and values gone on unhindered, the convulsion would have been far more severe.

The fifth and final cause of the lesser magnitude of the crisis is the development of trusts. As against the undoubted perils associated with the newer type of business organization, we must put

at least one countervailing advantage. The modern trust is likely to exert an undeniably steadying influence on prices. Precisely because of the immense interests at stake, and the danger of a reaction, the ably managed trust tends toward conservatism. As compared with the action of a horde of small competitors under similar conditions, it is likely during a period of prosperity to refrain from marking up prices to the top notch, and to make a more adequate provision for the contingencies of the market. With this is likely to be associated a greater prevision, which succeeds in a more correct adjustment of present investment to future needs. The drift of business in its newer form is thus toward a relative checking of the discrepancy between estimated and actual earnings, or, in other words, toward a retardation in the process of overcapitalization. The influence of trusts in moderating crises and in minimizing depressions will doubtless become more apparent with each ensuing decade.

D. THE COURSE OF A CRISIS

106. The Course of the Panic of 1893[11]

BY ALEXANDER D. NOYES

The public mind was on the verge of panic. During a year or more, it had been continuously disturbed by the undermining of the Treasury, a process visible to all observers. The financial situation in itself was vulnerable. In all probability, the crash of 1893 would have come twelve months before, had it not been for the accident of 1891's great harvest, in the face of European famine.

The panic of 1893, in its outbreak and in its culmination, followed the several successive steps familiar to all such episodes. One or two powerful corporations, which had been leading in the general plunge into debt, gave the first signals of distress. On February 20th, the Philadelphia and Reading Railway Company, with a capital of forty millions and a debt of more than $125,000,000, went into bankruptcy; on the 5th of May, the National Cordage Company, with twenty millions capital and ten millions liabilities followed suit. The management of both these enterprises had been marked by the rashest sort of speculation; both had been favorites on the speculative markets. The Cordage Company in particular had kept in the race for debt up to the moment of its ruin. In the very month of the company's insolvency, its directors declared a heavy cash dividend; paid, as may be supposed, out of capital. In January, National

[11]Adapted from *Forty Years of American Finance,* 182–206. Copyright by G. P. Putnam's Sons (1909).

Cordage stock had advanced twelve per cent on the New York market, selling at 147. Sixteen weeks later, it fell below ten dollars per share, and with it, during the opening week of May, the whole stock market collapsed. The bubble of inflated credit being punctured, a general movement of liquidation started. This movement immediately developed very serious symptoms.

Panic is in its nature unreasoning; therefore, although the financial fright of 1893 arose from fear of depreciation of the legal tenders, the first act of frightened bank depositors was to withdraw these very legal tenders from their banks. Experience has taught depositors that in a general collapse of credit the banks would probably be the first marks of disaster. Instinct led them to get their money out of the banks and into their own possession with the least possible delay, therefore when the depositors of interior banks demanded cash, and such banks had in immediate reserve a cash fund amounting to only six per cent of their deposits, it followed that the Eastern "reserve agents" were drawn upon in enormous sums.

On the New York banks the strain was particularly violent. During the month of June the cash reserves of banks in that city decreased nearly twenty millions; during July, they fell off twenty-one millions more. The deposits entrusted to them by interior institutions had been loaned, acording to the banking practice, in the Eastern market; their sudden recall in quantity forced the Eastern banks to contract their loans immediately. But in a market already struggling to sustain itself from wreck, such wholesale impairment of resources was a disastrous blow. In the closing days of June, the New York money rate on call advanced to seventy-four per cent, time loans being wholly unobtainable. The early withdrawals by depositors in the country banks were only a slight indication of what was to follow. In July, this Western panic had reached a stage which seemed to foreshadow general bankruptcy. Two classes of interior institutions went down immediately—the weaker savings banks, and private banks, distributed in various provincial towns, which had fostered speculation through the use of their combined deposits by the men who controlled them all.

In not a few instances, country banks were forced to suspend at a moment when their own cash reserves were on their way to them from depository centers. Out of the total of one hundred and fifty-eight national bank failures of the year, one hundred and fifty-three were in the West and South. How wide-spread the destruction was among other interior banking institutions may be judged from the fact that the season's record of suspension comprised 172 State

banks, 177 private banks, 47 savings-banks, 13 loan and trust companies, and 16 mortgage companies.

During the month of July, in the face of their own distress, the New York banks were shipping every week as much as $11,000,000 cash to these Western institutions. Ordinarily, such an enormous drain would have found compensation in import of foreign gold, and, in fact, sterling exchange declined far below the normal gold import point. But the blockade of credit was so complete that operations in exchange, even for the import of foreign specie, were impracticable. Banks with impaired reserves would not lend even on the collateral of drafts on London.

So large a part, indeed, of the Clearing-House debit balances were now discharged in loan certificates that a number of banks adopted the extreme measure of refusing to pay cash for the checks of their own depositors. Long continued, a situation of this kind must reduce a portion of the community almost to a state of barter; and in fact a number of large employers of labor actually made plans in 1893 to issue a currency of their own, redeemable when the banks had resumed cash payments. On the 25th of July, the Erie Railroad failed, the powerful Milwaukee Bank suspended, and the situation appeared well-nigh hopeless.

Relief came in two distinct and remarkable ways. Large as the volume of outstanding loan certificates already was, three New York banks combined to take out three to four millions more, and this credit fund was wholly used to facilitate gold imports. At almost the same time, the number of city banks refusing to cash depositors' checks had grown so considerable that well-known money-brokers advertised in the daily papers that they would pay in certified bank checks a premium for currency. This singular operation virtually meant the sale of bank checks for cash at a discount. Through the money-brokers, therefore, depositors paid in checks the face value of such currency as was offered, plus an additional percentage.

This premium rose from one and a half to four per cent, and at the higher figures attracted a mass of hoarded currency into the brokers' hands. This expedient was applied on an unusually large scale, and it had the good result of helping to keep the wheels of industry moving. Its bad result was that it caused suspension of cash payments in the majority of city banks; for, of course, when a premium of four per cent was offered in Wall Street, for any kind of currency, it was out of the question for the banks to respond unhesitatingly to demands for cash by speculative depositors. Most of the banks cashed freely the checks of depositors where it was shown that the cash was needed for personal or business uses.

The panic, in short, had ended, but not until the movement of liquidation had run its course. The record of business failures for the year gives some conception of the ruin involved in this forced liquidation. Commercial failures alone in 1893 were three times as numerous as those of 1873, and the aggregate liabilities involved were fully fifty per cent greater. It was computed that nine commercial houses out of every thousand doing business in the United States failed in 1873; in 1893, the similar reckoning showed thirteen failures in every thousand.

107. The Course of the Panic of 1907[12]

BY RALPH SCOTT HARRIS

In July, 1907, it was felt in every circle that business trembled on the edge of an abyss. A continued money stringency forced Secretary Cortelyou in August to make deposits in banks and accept as security state, municipal and railway bonds. Beginning in September there was a tone of ill-concealed fright among the most hopeful. Only the financial papers attempted to coax themselves back into the old confidence. During the second week in October call loans in New York ranged from 2½ to 6 per cent; time loans from 6 to 7 per cent; commercial paper from 7 to 7½ per cent. In these two weeks there were twice as many failures as in the same period of 1906. There were five times as many manufacturing failures in September, 1907, as in September, 1906.

A series of bank failures precipitated the spectacular part of the crisis. The first intimation of upheaval was the failure of the Stock Exchange firm of which Otto C. Heinze was the head. The suspension was due to a failure to corner the copper market. There was a well-defined suspicion that F. Augustus Heinze, president of the Mercantile National Bank, was interested in his brother's ventures, and that the bank was being "used" in this connection. He and his supposed allies fell into public distrust. Seven banks and a trust company with capital of $21,000,000 and deposits of $71,000,000 were dominated by these interests. Believing them able to weather the storm, the Clearing House Association agreed to help them out if Heinze and his associates were eliminated. This was done. A few days later, however, the National Bank of Commerce refused to clear any longer for the Knickerbocker Trust Company, whose president was thought to be allied with the suspected interests. The result was a run on the Knickerbocker Trust Company

[12]Adapted from *Practical Banking,* 250–257. Copyright by the author. Published by Houghton Mifflin Co. (1915).

which, after paying out $8,000,000 in three hours, closed its doors. Runs followed on the Lincoln Trust Company and on the Trust Company of North America. Following several conspicuous commercial failures, other banks in New York closed for safety's sake.

Meanwhile the money scramble began. Banks were forced to try to call loans to be prepared for the demand of banks and individual depositors. The Secretary of the Treasury deposited $35,000,000 in national banks in New York in four days.

Stock Exchange prices collapsed. A syndicate, headed by the late J. P. Morgan, stated that it would stand under the market, and placed $25,000,000 on call at 10 per cent; later $10,000,000 was made available at 50 per cent, the high price being fixed to discourage speculation. Soon the banks began to restrict cash payments; clearing-house loan certificates were issued. The demand for cash started a premium on currency the next week which continued the rest of the year. It offered an incentive for withdrawal of deposits. Large failures occurred as the result of the money stringency. On November 9 arrived the first large shipment of more than $100,000,000 in gold, imported to relieve the money stringency. The banks had already increased their circulating notes at this time.

But in the meantime the panic had seized the interior. Banks in most of the cities, over 25,000, suspended cash payments. The clearing-houses stood guaranty on certificates. It is estimated that over $500,000,000 of substitute paper was issued. The country banks, having no clearing-house affiliations, suffered most. Many failures occurred among them.

Shipments of money to the West were made from New York. These varied from $4,400,000 for the week ending October 19, to $22,600,000 for the week ending November 16. In the week ending January 4 the tide turned and $5,500,000 was shipped to New York. The New York banks supplied the country with $125,000,000 between the beginning of the panic and the first of 1908. Still the reserves of the Clearing-House banks were not seriously depleted, the importation of gold and the federal deposits having almost offset the loss of cash.

Domestic exchange was paralyzed, New York drafts selling from sixty cents discount to ten dollars premium in different parts of the country. As for foreign exchange, the ordinary rules applying were suspended. Drafts on London were bought when the export point had been passed, the reason prompting buyers being their ability to sell gold at a premium.

Common stocks fell, as did preferred stocks and bonds, although not to so low a point. By the first of the year securities took a

brighter outlook on life. To sustain the stock market, the national banks increased loans and discounts some $63,000,000 between the last of August and the first of December. This was in addition to the syndicate pool of $35,000,000 previously mentioned.

Perhaps the panic could have been localized had New York bankers been able to meet all demands without restriction. But restriction inspired country banks with a zeal to provide for any disaster. Hoarding followed. In December most country banks had higher reserves than at the beginning of the panic. The question which each country banker asked himself was, Can I afford to be less cautious than other bankers when I know the psychology of "panics" and "runs"?

Failures drop thick and fast when the panic is past. The financial battlefield is gory with the slain and, what is more, the trampled. And failures after the depression sets in are larger and more important. From 3,635 failures in the last three months of 1907, bankruptcies increased to 4,909 in the first quarter in 1908.

108. The Order of Events in a Crisis[13]

BY ARTHUR T. HADLEY

The order of events in a crisis is generally this:

1. A shock to public confidence in a period of liberal, not to say inflated, credit, creates a demand for ready money. No one is sure that his neighbor will remain solvent. Each man is therefore anxious to secure himself against future loss. Every borrower seeks means of paying his obligations and increases the demand for money; almost every capitalist tries to enlarge his cash reserves and thus lessens the available supply.

2. This increase of demand and diminution of supply at first puts up the interest rate on short-time loans. Money is needed to tide over the immediate exigency, and every one is willing to pay large prices in order to obtain it. But this is only a temporary measure. Under the stress of need for securing money, people who have engagements to meet sell their goods at a sacrifice in order to obtain it. An unusually large supply of products and securities is thrown upon the market just at the time when many property owners feel themselves least able to invest, and when some consumers are restricting their purchases instead of expanding them. The temporary increase in the interest rate gives place to a more lasting fall in prices.

[13]Adapted from *Economics*, 297–299. Copyright by G. P. Putnam's Sons (1896).

3. Such a fall in prices lowers profits. A large number of people have made engagements with their creditors and with their employees based on the supposition that prices will continue at the old level. A fall in price renders it impossible to pay interest out of current earnings. Readjustments and foreclosures follow one another in rapid succession. In cases where the lenders of money have obtained proper security the contracts are maintained at the expense of the principal of the borrowers. If a railroad bond is really secured by stock behind it, the loss falls on the stockholders, and the bondholders, ultimately at any rate, receive all that the interest contract calls for. But if, as frequently happens, the security has been a delusive one, the lenders are compelled to assent to a reduction of the interest which they believe to be safely guaranteed.

4. When the interest contracts have been in large measure readjusted, the chief effect on wages begins to make itself felt. It might be supposed, on general grounds, that a fall in price would affect the laborer sooner than the investor. But in the early stages of a commercial crisis the capitalist is not in a position to dictate terms to his laborers. He must make goods and sell goods at any price, in order to keep his head above water. As long as it lasts, the cut-throat competition which lowers profits prevents the demand for labor from being very rapidly lessened. It is when readjustments of interest have been made that the laborers' condition becomes worse. After foreclosure sales have been completed and capital is reorganized on a new basis, no capitalist is necessarily compelled to work at a loss, and some probably go out of work altogether. Under these circumstances the demand for labor becomes appreciably less than it was, and the price offered falls rapidly.

The first moderate changes are as a rule accepted by the laborers as inevitable, but as reductions become more sweeping they are resisted, particularly because house rents and consumers' prices, owing to the inertia of retail trade, do not fall nearly as fast as producers' prices. The workman sees his wages reduced because his employer cannot sell goods at the old figure, while the price that he pays for his supplies remains nearly the same. He thinks that something is wrong and strikes. This usually indicates the beginning of the end of a commercial crisis. It has become a proverb in the financial world that railroad strikes give no help to those who are trying to depress the price of securities.

On the contrary, in spite of the losses attending such conflicts, it has been found in 1877, 1885, and 1894 that the price of securities in general began to go up at the very time when matters seemed to be at their worst. There are two reasons for this. First, strikes

cut down production in any given line to such an extent as to enable competing producers to dispose of their products or services more readily. Second, strikes indicate that wage contracts, as well as interest contracts, have been readjusted to the price conditions which prevail, and that matters have therefore reached a point where speculators can make arrangements for the future with the assurance that the marginal price charged by labor and capital for their services does not exceed the market price which the consumers are likely to pay for the results of such service.

E. FINANCIAL AND INDUSTRIAL CONDITIONS DURING A CRISIS

109. A Week of Financial History[14]

Our markets have been more disturbed and excited this week than at any time this year. The situation looked unpromising when the week opened, and became daily more unsettled until Thursday, when there was a decided improvement; but yesterday the situation was again somewhat less favorable. Monday and Tuesday an unusual number of failures among our banks and private firms were reported in various parts of the country, but especially in the West, some of them being concerns of long standing and held in high repute. On those days, too, rumors became hourly more distinct respecting the difficulties Erie's floating debt was causing the management and the probability of its becoming needful to put the road into the hands of receivers. Tuesday afternoon the announcement was made that receivers for the company had been appointed. On Wednesday the failures referred to, the Erie receivership, and the state of the money market caused an unsettled and feverish opening, which conditions were used, and used most effectually, by those seeking to break prices, values of all the leading stocks gradually melting away. This decline was favored by the fact that the outside public having money to invest either looked upon the Erie receivership as a more disturbing affair than the step warranted, or else were discouraged by the frequent flurries and declines in prices which have occurred of late, and so for the time being kept off the market. The next day, Thursday, the outlook, as already stated, was much brighter, and so it was yesterday, though there was some reaction from the previous day, a further large break in General Electric stock being a disturbing feature.

[14] *Commercial and Financial Chronicle,* July 29, 1893, 162. Copyright (1893).

Money on call representing bankers' balances was not stringent until Wednesday. The loans early in the week were from 6 to 2 per cent, the latter figure being recorded on Monday after the inquiry for the day had been satisfied and there seemed to be an abundance offered. The demand for currency for shipment to the West, stimulated by the failure of the "Mitchell" bank at Milwaukee, and of banks at Louisville and Indianapolis, was urgent on Tuesday, and on the following day a calling in of loans by some of the banks and trust companies in this city and in Brooklyn created a disturbance in the money market, while the fall in stock values induced discrimination against collateral, and the rate was advanced to three-sixteenths of 1 per cent and interest, equal to about 74 per cent per annum, and large amounts were loaned at one-eighth of 1 per cent and interest, equal to 51 per cent per annum. On Thursday there was an early demand for money which caused 51 per cent to be again recorded, but in the afternoon the rate fell to 6 per cent. Yesterday the course was much the same, the range being 51 and 2 per cent, with the close at the lowest figure. The average for the week was probably about 10 per cent. Renewals were at from 6 to 8, and while banks and trust companies quoted 6, very little was loaned over the counter at this figure, and the institutions that had money to loan offered it in the stock exchange. Time contracts continue in urgent demand and good rates are bid, but the supply is small and chiefly confined to private sources. Neither banks nor trust companies are making loans on time, but it is probable that a few of the insurance companies and other corporations have yielded to the importunities of brokers. The basis of the business is 6 per cent; in addition 1 per cent commission is paid for thirty days, 1½ per cent for sixty days, and 2 per cent for four months. Scarcely anything is done in commercial paper, and the few transactions made are at such rates as can be agreed upon. Many of the jobbing commission houses are advising the mills with which they do business to shut down, as it is impossible at present to make advances, and many of the mills at the East are consequently closing.

110. General Industrial Conditions in a Crisis[15]

While special telegrams from many points South and West report a more hopeful feeling in financial and commercial circles, due to the increased currency issue by New York national banks, the gold afloat for the United States, and in the expectation that Congress will promptly repeal the compulsory purchase of silver clause

[15]Adapted from *Bradstreet's*, August 5 and 12, 1893, 495, 511.

of the Sherman Act, the week has, on the whole, brought more unfavorable features in the apparent hoarding and scarcity of currency East and West, the near approach of the demand for funds to "move the crops," the increase in the shut-down movement by manufacturers in New England, Middle and Central Western States, and the clog to trade shown by prohibitive rates for New York exchange at centers East, West, and Northwest. Chicago packers and grain shippers selling to interior eastern points, having been unable to sell their New York exchange, are ordering the currency to pay for stuff shipped direct by express, thus doing away with banks. At New York credit of both banks and commercial interests is unimpaired, but actual money is scarce and commands a premium. The arrival of gold in transit is expected to clear the atmosphere and relieve pressure. Demands for actual currency from all quarters on New York are pressing. The scarcity of small notes and silver dollars is a feature. Banks are generally refusing or complying only partially with requests for large sums.

The irrational but widespread hoarding of currency has compelled jobbers and manufacturers in many instances to do business more nearly than ever on a cash basis, which has resulted in a further restriction of trade throughout the country. This is accompanied by such signs of aggravation as increased difficulty in disposing of commercial paper, a still greater scarcity of currency at larger centers, and a shut-down movement among industrial establishments; the latter, together with curtailment of forces in that and in commercial lines, points to the enforced idleness of nearly 1,000,000 wage-earners within the past two months, as compared with not more than 400,000 at the close of 1884, the previous year of greatest business depression. The week's bank clearings total is the smallest of recent years—$802,000,000—17 per cent less than last week and 20 per cent less than in the week of 1892.

A hand to mouth demand for staples is reported from Boston; many leading industries have shut down, currency is scarcer, commercial paper is ignored, and general business rather more clogged than last week, all of which applies as well to New York, Philadelphia, Baltimore, and Pittsburg.

Increased demands from country banks make currency scarcer at Cleveland and Cincinnati, where previous dullness is intensified. Business at Louisville is almost at a standstill, banks declining to receive country checks even for collection, and preferring not to handle New York exchange. General trade is almost on a cash basis at Indianapolis, and reduced in volume, which is also true at Milwaukee. Chicago bankers are hopeful, owing to the heavy gold

importations, but orders left with jobbers are held awaiting crop advices, some of the latter being doubtful. St. Paul, Minneapolis, and Duluth jobbers are doing a hand to mouth business, awaiting a change in the situation. St. Louis reports a shrinkage in the volume of sales of dry goods and hardware, while at Omaha banking accommodations and the volume of trade continue in reduced volume. Live stock receipts are smaller, with higher prices, and the corn crop is damaged in western Nebraska.

111. The Premium on Currency in 1893[16]

Other than the President's message and the meeting of Congress, which we have remarked upon in a subsequent column, the premium on gold and currency that has prevailed has been the important topic. This feature in the situation we referred to last week when it had developed only very moderate proportions. From that beginning, however, the demand for currency gradually grew more urgent, the premium rising as high even as 5 per cent, disclosing a marked scarcity of currency, not alone in this city but very noticeable at Philadelphia and Boston in the East and Chicago and other centers in the West. All kinds of currency were in request including even standard silver dollars. Foreign bankers also report that 1½ per cent was paid for gold to arrive. Of course the gold import movement had been affected by these operations, which in turn have raised foreign exchange rates materially, since the premium paid raises the power of exchange and consequently the point at which gold can be imported at a profit. Thursday, however, there were decided indications that the transactions in currency had culminated. On that day the supply was increased by large offerings and the demand slackened. Yesterday the same conditions continued to prevail, and the premium on currency dropped to 1½ and 2 per cent.

112. The Hoarding of Currency in 1893[17]

BY J. DE WITT WARNER

Then developed the feature that will forever characterize the stringency of 1893—instructive to those who have not already learned how immaterial is any ordinary supply of legal currency when compared with credit in its various forms—the real currency of the

[16] *Commercial and Financial Chronicle,* August 12, 1893, 196.

[17] Adapted from *Sound Currency Year Book,* 240 (1896).

country. Almost between morning and night the scramble for currency had begun and culminated all over the country, and the preposterous bulk of our circulating medium had been swallowed up as effectually as, in a scarcely less brief period, gold and silver had disappeared before the premium on specie a generation before. Currency was hoarded until it became so scarce that it had to be bought as merchandise at a premium of 1 to 3 per cent in checks payable through the clearing-house; and to enable their families to meet petty bills at the summer resorts the merchant and professional men of the cities were forced to purchase and send express packages of bills or coin; while savings banks hawked their government bond investments about the money centers in a vain attempt to secure currency.

113. Estimate of Money Hoarded in 1907[18]

The national banks held $40,839,000 less cash on December 3 than on August 22. And yet, during this period, the government increased its deposits in the national banks by $80,000,000, and there was imported about $70,000,000 in gold. Considering this increase of about $150,000,000, and the loss of $40,839,000, more than $190,000,000 of cash was taken out of the national banks in this period. It is quite certain that neither the savings banks nor the trust companies increased their cash holdings by any such amount. In fact, they had to close their doors to prevent the withdrawal of cash. It is probable that the trust companies of the country lost considerable cash, and that the savings banks gained none during this period. In ordinary years the national banks lose but little cash by crop movements—say $25,000,000. This is, perhaps, considerably less than the shrinkage this year in the cash holdings of the trust companies. It would appear, then, that fully $200,000,000 of cash this year disappeared from our banks between August 22 and December 3.

114. Economies in Credit[19]

In view of the action taken by the New York Clearing House, and subsequently adopted by Chicago, St. Louis, Philadelphia, Cincinnti, New Orleans, Nashville, Birmingham, Baltimore, Louisville, Memphis, Montgomery, Mobile, and many other principal cities throughout the country, restricting the shipment of currency, and

[18]Adapted from an editorial in *Moody's Magazine,* V, 80. Copyright (1908).

[19]Resolutions passed by the Atlanta Clearing House, October 30, 1907.

the restriction of other business to its proper channel, the Clearing House; therefore, be it

Resolved by the Atlanta Clearing House Association—

1. That until further notice collections and bank balances be settled in exchange for clearing-house certificates.

2. That checks drawn on the members of this association be paid through the Atlanta Clearing House, and correspondents be requested to so stamp their checks.

3. That payments against all accounts, including certificates of deposit, be limited to $50 in one day, or $100 in one week.

4. That exception shall be made to the above in case of pay rolls, which shall be paid as follows: All denominations of $5 and over in clearing-house certificates, and all denominations of under $5 to be paid in cash as desired.

Resolved further, That the manager of the Atlanta Clearing House Association be instructed to give notice to the correspondents of the Atlanta Clearing-House banks that the above resolution is in effect on and after this date and until further notice.

115. Shipment of Currency to the Interior[20]

The clearing-house committee knew by experience that the dissipation of the New York banking reserve, upon which practically the credit volume of the nation rests, would alarm the nation, intensify the panic, and greatly prolong the period of recuperation. New York bankers have been severely criticised because they did not more fully respond to the demands of country correspondents by shipping currency against balances. To have fully honored the demands that were pouring in from all sections of the country would have dissipated our banking reserve in a fortnight. How could it be replenished? Were the interior bankers sending currency to New York? What would have been the effect upon the country if the New York banking reserve had been entirely depleted? It would have so intensified the panicky feeling that widespread commercial disaster would have resulted. The $53,000,000 deficit in our banking reserve occurred in less than ten days after the failure of the Knickerbocker Trust Company, and was caused by the shipment to interior institutions of the larger portion of that amount in that short time. We kept the door of our treasure house wide open until for the good of the whole country it became necessary everywhere to close it. It never was fully closed; currency shipments continued in a restricted way throughout the panic, and a

[20]*Commercial and Financial Chronicle,* October 10, 1908, 84.

larger number of our banks kept up their counter payments as usual.

F. INDUSTRIAL CONDITIONS DURING A DEPRESSION

116. Panics versus Depressions[21]

BY GEORGE H. HULL

Panic is defined as "a sudden, unreasoning, overpowering fear, especially when affecting a large number simultaneously." A "Financial Panic" is, therefore, the effect produced upon the finances of a country by sudden, unreasoning, and overpowering fright.

Depression is defined as "a state of dullness or inactivity; a protracted season when business falls below the normal." "Industrial Depression," therefore, means literally a state of dulness or inactivity in the industries of the country; a protracted season during which the production of buildings, furniture, goods, machinery, etc., falls below the normal.

A financial panic is precipitated by sudden, excited, and imprudent action. An industrial depression is precipitated by deliberate, thoughtful, and prudent inaction. One is the result of mental excitement, which results in a temporary check to a natural flow of the media of exchange. It is a mental disorder. The other is the effect of calm, deliberate consideration, which results in reducing the rate of production of materials of physical wealth. It is a physical disorder.

A financial panic is an acute malady. Its beginning is sudden, intense, vivid, and startling. Its chief element is fright. It paralyzes finances at a single blow. Each subsequent step in its course is an alleviation. Each day, week or month shows a marked recovery. From its nature and intensity it is short-lived.

An industrial depression is a stubborn, chronic malady. Its beginning is gradual and quiet. It commences and goes on increasing in force for many months, unnoticed. Its cause is silently doing its fatal work while actual business is increasing by leaps and bounds. When actual depression appears, its cause has almost ceased to exist. From its nature and its deep-seated growth industrial depression is long-lived.

A financial panic is usually a matter of a few months, weeks, or days. An industrial depression is usually a matter of one or more years.

[21]Adapted from *Industrial Depressions,* 18–20. Copyright by Frederick A. Stokes Co. (1911).

A financial panic may be compared to a mob, in which a great number of excited minds work upon and incite each other until men act in a body as no one of them would act if left to himself. Industrial depressions, on the other hand, are the cumulative results of the deliberate and thoughtful decisions of individual men.

These two calamities can be classed together only because the results of each have a disastrous effect upon business. A panic has an effect which is short, exciting, and a temporary disaster, not to existing material wealth, but to the documentary representatives of wealth; a loss from which the country may entirely recuperate within a short time. The other is a compulsory laying down of the tools which produce wealth, by a vast army of wealth-creators; a loss that can no more be regained than a lost day or year can be regained.

117. The Extent of the Depression of 1907-8[22]

A few facts and figures will indicate the extent of the present industrial depression. Bank exchanges at all the leading cities of the United States were $2,073,910,424 for the week ending January 30, 1908, a decrease of 23.3% compared with the corresponding week of 1907, and 37.2% compared with the corresponding week of 1906. The decrease in New York and Philadelphia exceeded 28%, compared with 1906, and was greater than in any other cities.

For the first two weeks of January, 1908, gross earnings of railroads were about 13% less than in 1907. For the last week in December they were 15.52% below those of 1906. For the entire month of December gross earnings were 1.13%, while net earnings were 17.46% less than were those for December, 1906.

Transactions of the New York stock exchange amounted to 16,634,817 shares, compared with 22,712,420 in January, 1907. The decline in the prices of commodities in the last few months has been about 10%.

The sharp falling off in the net earnings of the United States Steel Corporation in the last quarter of 1907 show the remarkable decline in industry. The net earnings fell from $17,052,211, in October, to $10,467,253, in November, and to $5,034,531, in December. This is a decline of over 70%.

The unparalleled number of idle cars affords a barometer of our industrial condition. Today there are approximately 320,000 freight cars and 8,000 locomotives standing idle, representing an investment of more than $400,000,000, and there are more than 30,000

[22]Adapted from an editorial in *Moody's Magazine,* V, 151–154. Copyright (January, 1908).

unemployed trainmen. And yet three months ago there were not enough railroad cars to move the traffic of the country.

The money market affords one of the best barometers of the great change that has come over the industrial situation. From a deficit of $54,103,600 on November 23, in the surplus reserves of the New York Associated Banks, there was a surplus of $40,626,725 on February 1. From rates of 25% or more, last fall for call money, we now have rates of less than 2%. From rates of from 7 to 12% for time money last fall, we now have rates of from 4 to 4½% on Stock Exchange collateral, and from 5 to 6% on commercial paper. The return of hoarded money and the slackening demand for money in industrial and commercial operations are mainly responsible for this sudden transformation of the money market.

Already gold exports have begun from this country. They may reach a considerable volume before next July. Money rates, however, may be expected to remain about as at present. Money rates are being followed by rising prices for bonds and other secure securities. During January the price of bonds rose about twice as much as the price of common stocks. Under existing conditions investors find bonds very attractive in view of the uncertainty of the situation. Many interior banks have put their idle funds in bonds on account of the comparatively high interest return they can secure by such a course.

G. TYPICAL THEORIES OF CRISES

118. The Fruits of the Exploitation of Labor[23]

BY FRANK K. FOSTER

Once in about so many years this country is afflicted with what we call "hard times." It is a striking instance of the limitations of human wisdom that the wise men have not been able to diagnose the causes of such periodic bad spells. It will not answer to place the responsibility upon causes beyond human control. Somebody is to blame. Who is it?

The industrial world is complex. A thousand and one influences play upon it. Fictitious values are created. Watered stocks and inflated mergers act as sponges to soak up the products

[23]Adapted from "Who Does It?" in *The Causes of Industrial Panics in the United States,* 16–18. Published by the Chicago Federation of Labor (1903).

of honest effort. Speculative pools force up prices abnormally. All these things help to bring about crises.

But there is one simple and all-pervasive question, rarely if ever taken into account, which explains much; one condition which, more than any other, works toward the glut of markets and the periodic depression of industry. This axiomatic proposition may be formulated thus: "So long as those who produce wealth do not receive for their labor a return sufficient to enable them to buy back the equivalent of what they themselves produce, congestion is inevitable and depressions will recur. These depressions will vary in frequency and intensity in direct ratio to the discrepancy between values earned and received."

The term "producers of wealth" is by no means confined to those who work with their hands. The rational estimate must accord its full weight to those who direct, invent, organize, and simplify processes of production. But, when all else is said, the laborer, as making up the great bulk of the market for staple products, is the main factor, and his wage-rate and consequent standard of living most acutely modify the demand for manufactured products.

The working of this principle can best be seen by application. Suppose, for illustration, that the wages and standard of living of all American mechanics were to be at once crowded down to the level of the laborer recently arrived from Southern Europe. It requires little perspicacity to foretell the result of such a metamorphosis on American manufactures. There would be almost immediately wholesale stoppages in all those thousand and one industries now supported by the home market.

But that which is true in the extreme case is also true in degree in the rise and fall of wages in narrower margins. A decrease of 10 per cent in wages all along the line in American industry means that hundreds of millions of dollars less will be spent for manufactured products. And every reduction in wages operates in the same direction, while every increase—up, of course, to the absorption of the full margin of profit—means a stimulation of the market.

It is not the millionaires who use up the products of most wealth-producers, but the people of moderate means, who depend upon their daily labor for their daily bread. Consequently panics will recur until the margin of profit in the production of commodities goes to the producer instead of to the speculator or the exploiter.

119. The Impossibility of Over-Production[24]

BY JOHN STUART MILL

Dearth, or scarcity, on the one hand, and over-supply, or, in mercantile language, glut, on the other, are incident to all commodities. Because this phenomena of over-supply may exist in the case of any one commodity, many persons have thought that it may exist with regard to all commodities; that there may be a general over-production of wealth; and a consequent depressed condition of all classes of producers.

The doctrine seems to me to involve so much inconsistency in its very conception that I feel considerable difficulty in giving any clear statement of it. In general the theory is that there may be an excess of productions in general beyond the demand for them; that when this happens, purchasers cannot be found at prices which will repay the cost of production; that there ensues a general depression of prices. The advocates of this theory maintain that the accumulation of capital may proceed too fast; and enjoin the rich to guard against this evil by an ample unproductive consumption.

When writers speak of the supply of commodities outrunning the demand, it is not clear which of two elements of demand they have in view; the desire to possess, or the means to purchase. In this uncertainty it is necessary to examine both suppositions.

First, let us suppose that the quantity of commodities produced is not greater than the community would be glad to consume. Is it possible, in that case, that there should be a deficiency of demand, for want of the means of payment? Those who think so cannot have considered what it is which constitutes the means of payment for commodities. It is simply commodities. All sellers are inevitably buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should also double the purchasing power. Everyone would bring to the market a double demand as well as supply. It is probable that there would be a superfluity of certain things. If so, the supply will adapt itself accordingly, and the values of things will continue to correspond to their cost of production. At any rate it is a sheer absurdity that all things should fall in value, and that all producers should be insufficiently remunerated. If values remain the same, what becomes of prices is immaterial, since the remuneration of producers depends upon how much of consumable articles they obtain for their goods.

[24]Adapted from *The Principles of Political Economy,* II, 105–113 (1848).

But it may perhaps be supposed that it is not the ability to purchase, but the desire to possess, which falls short; that those who have the means do not make the wants, and those who have the wants are without the means. A portion, therefore, of the commodities produced may be unable to find a market.

This form of the doctrine is more plausible and does not involve a contradiction. There may easily be a greater quantity of any commodity than is desired by those who have the means to purchase it, and it is abstractly conceivable that this might be the case with all commodities. The error is in not perceiving that though all who have an equivalent to give might be fully provided with every consumable article which they desire, the fact that they go on adding to the production proves that this is not actually the case. Whoever brings additional commodities to the market brings an additional power to purchase; he also brings an additional desire to consume, since if he had not that desire he would not have troubled himself to produce. At most, it can be argued that the demand may be for one thing and the supply may unfortunately consist of another.

Driven to this last resort, an opponent may perhaps allege that there are persons who produce and accumulate from mere habit. They continue producing because the machine is ready mounted, and save and reinvest their savings because they have nothing on which they care to expend them. Such cases are possible; but do not affect our conclusion. For, what do these persons do with their savings? They invest them productively; that is, spend them in employing labor. Now will the laboring class also know what to do with it? Are we to suppose that they too have their wants perfectly satisfied, and go on laboring from mere habit? Until the working classes have also reached the point of satiety, there will be no want of demand for produce. Thus, in whatever manner the question is looked at, the theory of general over-production implies an absurdity.

120. Sun-Spots and Crises[25]

BY W. STANLEY JEVONS

I have long felt convinced that a well-marked decennial periodicity can be traced in the activity of trade and the recurrence of

[25]Adapted from "The Periodicity of Commercial Crises and Its Physical Explanation," in *Investigations in Currency and Finance*, 207, 214–216 (1878).

commercial crises. Evidence shows that trade reached a maximum of activity in or about the years 1701, 1711, 1721, 1732, 1742, 1753, 1763, 1772, 1783, 1793, 1805, 1815, 1825, 1837, 1847, 1857, 1866. These years, whether marked by the bursting of a commercial panic or not, are corresponding years, and the intervals vary only from nine to twelve years. There being in all an interval of one hundred and sixty-five years, broken into sixteen periods, the average length of these periods is about 10.3 years. But the dates 1701 and 1711 are not well established and the panic of 1866 was probably precipitated by the fall of Overends, Gurney & Co. Judging by the events of 1837, 1847, and 1857, we should probably place the proper date of the collapse in 1867. If we compare the unquestionable collapse of 1721 with 1867, the average interval is 10.43 years; if we prefer to compare 1721 with 1857, in which year there was an undoubted collapse, then the mean interval becomes 10.46. As the year 1763 was also a year of well-marked crisis, it is instructive to compare it with 1857, which gives the average interval just 10.44 years, which falls nearly between the previous results, and may be accepted as the most probable. Now it is very curious to bring this result in connection with the statement of Mr. J. A. Brown[26] that his investigations led him to the conclusion that the cycle for sun-spots was 10.45 years. His conclusion agrees with that previously obtained by Dr. Lamont. Judging by this close coincidence of results according to the theory of probabilities, it becomes highly probable that the two periodic phenomena, varying so nearly in the same mean period, are connected as cause and effect.

These periodic variations in industrial activity are frequently attributed to mental action. A commercial panic, it is held, is the destruction of belief and hope in the minds of merchants and bankers. Though I agree, I can see no reason why the human mind, in its own spontaneous action, should select a period of just 10.44 years to vary in. Surely we must go beyond the mind to its industrial environment. Merchants and bankers are continually influenced in their dealings by accounts of the success of harvests, the comparative abundance or scarcity of goods; and when we know that there is a cause, the variation of the solar activity, which is just of the nature to affect the produce of agriculture, and which does vary in the same period, it is almost certain that the two sets of phenomena, credit cycles and solar variations, are connected as cause and effect.

[26] *Nature*, XVI, 63 (1877).

121. The Neo-Jevonian Theory[27]

BY ALVIN S. JOHNSON

We have no lack of theories—some of them extremely ingenious—setting forth the causes and conditions of crises. Most of these unfortunately are vitiated by a propagandist purpose. Just as the practical politician ascribes depression to the tariff, so the economist is likely to find the cause in social conditions of which he disapproves. Theorists who approve of the existing order on general grounds are disposed to assign a separate cause to each crisis. So of the outstanding fact of periodicity of crises we have hitherto had no satisfactory explanation. Accordingly we may regard as an event of great practical and scientific importance a new book on economic cycles by Professor Moore.[28]

The author attempts to apply the newer mathematics to the analysis of economic facts. For a generation or more students of meteorology have occupied themselves with cyclical variations in climate; and these variations, affecting as they must the production of agricultural staples, have an obvious bearing upon economic conditions. Professor Moore has attacked the climate problem anew and shows that so far as rainfall is concerned—the most important element—the climate of our middle western agricultural territory is characterized by great cycles of approximately thirty-three years, and by lesser cycles of approximately eight years. An analysis of crop statistics shows that the yield per acre of staple crops correlates very closely with the rainfall cycles thus established. Agricultural prices are high in lean years and low in fat ones; nevertheless the price variations are inadequate to counterbalance the variations in yield. Accordingly the purchasing power exerted by agriculture varies in cycles that are identical with the rainfall cycles. Thus agricultural prosperity and depression are already explained.

Next, as to the effect on industry. Professor Moore analyzes the statistics of pig-iron production—the "barometer of business"—and finds that with due allowance for the secular upward trend in production, the figures reveal cycles corresponding with the rainfall cycles, but lagging after by an interval of about two years. Finally a study of general prices—the indicia of prosperity and depression—brings to light corresponding cycles, with a lag, however, of about four

[27]Adapted from "Causes of Crises," in *The New Republic,* II, 17–19. Copyright (1915).

[28]*Economic Cycles: Their Law and Cause.* Published by Macmillan (1914).

years. Thus is established the dependence of all the complex phenomena of economic cycles upon the simple underlying phenomenon of the meteorological cycle.

122. Capitalization and Crises[29]

BY FRANK A. FETTER

Capitalization runs through all industry. The value of everything that lasts for more than a moment is built in part upon income which is not actual, but expectative, whose amount, therefore, is a matter of guesswork, or speculation. Many unknown factors enter into the estimate of future incomes. The universal tendency to rhythm in motion manifests itself in an overestimate or underestimate of income. Most men follow a leader in investment as in other things. The spirit of speculation grows until it becomes almost a frenzy and people rush toward this or that investment, throwing capitalization in some industries far out of equilibrium with that in others.

The use of credit enhances the rhythm of price. A large part of business is done on margins. If the value of a thing fully paid for falls in the hands of the owner, he alone loses; but, if the value of a thing only partially paid for falls so much that the owner is forced to default in his payment, the loss may be transmitted along the line of credit to every one in the series of transactions. A credit system, highly developed, is a house of cards at a time of financial stress. There is an element of credit in almost all business. Entrepreneurs enter into strenuous rivalry to secure the profits of a rise, ever hoping to get out whole before the crisis comes.

The fundamental cause of crises thus is seen to be psychological; it is the rhythmic miscalculation of incomes and of capital value, occurring to some degree throughout industry. This is given full opportunity for action only when certain favoring objective conditions are present. Most noteworthy of these is the dynamic condition of industry. The past century has opened up new fields of investment on an unexampled scale. New machinery and processes have given undreamed of opportunity for enterprise. Such factors disturb the equilibrium of prices both in time and space, give a powerful stimulus towards higher values, and stimulate the hopes of all investors. When the balance between the capitalization of

[29]Adapted from *Principles of Economics,* 353–354. Copyright by the Century Co. (1904).

various industries and between the income of various periods proves to be false, the inevitable readjustment causes suffering and loss to many, but particularly in the inflated industries. But, because of the mutual relations of men in business, few even of those who have kept freest from speculation can quite escape the evils.

123. The Lagging Adjustment of Interest[30]

BY IRVING FISHER

Few persons realize how central a rôle interest plays in all business phenomena. Interest is the link connecting each year with the next. Every plan and contract involving time must be made partly in terms of the rate of interest, even though this rate enters unperceived. We have several billions of dollars invested today in the life insurance business. The whole structure has been calculated by assuming a law of human mortality and a rate of interest. A change of one point in the rate of interest makes an enormous change in all these calculations. The value of all lands, all capital, all securities, depends upon the rate of interest. The importance, therefore, of having the rate properly adjusted cannot be too much emphasized. To show the necessity of an adjustment to meet a new situation let us take an example. If in 1896 it had been believed that Bryan was to be elected, that his program was to be carried out, and that in consequence there was to be enacted a veritable "50-cent dollar," it would have been necessary to increase the rate of interest by an amount equal to a sinking fund for the 50 per cent depreciation. In like manner it is always necessary for self-protection to raise the interest rate to guard against any foreseen depreciation.

To offset such depreciation the business man does not actually have to call it by that name. Instead of considering gold as changing in value, he may consider commodities as changing in terms of gold; and instead of talking of depreciation of gold, he may speak of rise of prices. The business man who believes that prices in general will rise in the next ten years believes in effect that the value of gold will fall. He will be likely to take this fact into account in connection with every business venture or investment. The result will inevitably be a rise in the rate of interest. If, for instance, he is a borrower, rising prices will mean to him rising profits, and he will be much more ready than if prices were falling to pay high interest. On the other hand, to be tempted to lend money, he will require higher interest to insure his receiving an equivalent of the purchasing

[30]Adapted from "Gold Depreciation and Interest Rates," in *Moody's Magazine,* VII, 110–114. Copyright (1909).

power loaned. There is thus provided a certain escape from the evils attending a foreknown change in the value of money.

Unfortunately, however, the great mass of persons do not consider the prospect of a change in the general level of prices. An investigation seeking to determine to what extent a rise in prices is actually discounted and offset shows: first, that in general when prices are rising, the rate of interest is high and therefore does to a certain extent compensate for the fall in the principal, but second, it is not usually high enough fully to compensate for this depreciation. In other words, it is only partially adjusted.

This lack of adjustment implies a transfer of the ownership of wealth from the creditor to the debtor. The investor who is shrewd enough to foresee the rise in prices will bond his business at the current rate of interest. Since this rate is lower than his business could afford to pay, the enterpriser wins at the expense of the bondholder. He will borrow more than he otherwise would because the rate of interest is lower than it should be. The borrowing class today consists of the enterprisers—precisely the men who have the greatest foresight—consequently it is the borrower, not the lender, who first foresees a rise or fall of prices. If the lender foresaw equally he would demand a higher rate of interest when prices are rising. An adequate adjustment of interest would prevent this extensive borrowing, but, because of an inequality of foresight, a rise of prices will stimulate loans.

This is the analysis of the universally observed fact that during a period of rising prices loans are unduly stimulated. For a time larger profits are made simply because part of the lender's share goes to the borrower, and this continues until the rate of interest at last becomes sufficiently adjusted to check the loans.

A crisis is the cumulation of a period of rising prices. In the mechanism of this process, however, the main rôle is played by the rate of interest. The series of events is, I believe, in general as follows:

First, a rise in prices through any cause, such as an increased production of gold.

Second, failure at first of the rate of interest to rise enough to offset the impending fall in the value of money (rise in prices).

Third, borrowers are quicker to grasp the situation than lenders, and consequently loans are unduly extended.

Fourth, the increase of loans is accompanied by an increase of bank deposits.

Fifth, since bank deposits act as a substitute for money, an increase of bank deposits tends further to increase prices.

In other words, as a result of this chain of causes, beginning with a rise in prices, the prices will rise still further. There is thus set up a vicious circle, which will continue just as long as the rate of interest fails to make a proper adjustment to put on the brakes and prevent the over-borrowing. It is odd that when the crisis comes the blame is put on the high rate of interest, in utter disregard of the fact that if the rate of interest had been higher at first, the crisis would have been averted.

H. CREDIT AND CRISES

124. Inelasticity of Credit under the National Banking System

BY HAROLD G. MOULTON

The financial crisis is marked by an enormous demand upon the banks for funds. Many business men, finding that debts due them are not being paid at maturity, become, in consequence, unable to meet their own maturing obligations. The result is a rush to the banks for loans with which to tide themselves over the crisis. Many other business men, who merely fear that their debtors may not be able to pay promptly, also rush to the banks for an accommodation in anticipation of trouble to come. It is usually feared that a little later loans may be procured only at a very high rate, if at all; and that, in any event, an immediate loan insures financial safety and peace of mind to the worried business man.

Under the recently superseded national banking system, sound banking practice, as well as the law, required national banks to keep a reserve in cash against their obligations which were payable on demand. For instance, in the big financial centers, a reserve of 25 per cent was required. That is, if the bank had made loans to the extent of $1,000,000 and had given depositors checking (deposit) accounts against which they might draw as desired, it would have to hold in cash a reserve of at least $250,000. To illustrate the situation that develops in time of crisis, let us assume the above bank to have a reserve of $275,000, or 27.5 per cent, and that at the time of crisis there arises a demand for $100,000 of additional loans to business. This would make the deposit accounts equal to substantially $1,100,000, without causing any change in the reserve; and the result would be a reduction in percentage of reserves to deposits from 27.5 to 25

per cent, the legal minimum. The situation is usually rendered still more acute by reason of the fact that many depositors, fearful of the safety of the banks, withdraw and hoard cash. If we assume $50,000 to be withdrawn in this way, the reserve is reduced to $225,000 which, of course, further reduces the ratio of reserve to deposits, specifically to about 21.5 per cent. This double strain upon the banks thus quickly carries them to a point where inability to maintain specie payments and consequently insolvency is imminent.

Thus far we have spoken of a demand on the banks for funds or loans, using these terms in a general sense. It is now necessary to clarify the situation by stating that the demand of the business world is partly for credit in the form of checking accounts, and partly for actual money in the form of bank notes. The latter appears to the average person as the all-important, if not the sole, function. Scarcity of money is what the man of small means whose transactions are generally of a retail nature sees. This is of course a scarcity of available funds due to the hoarding that has taken place; but a scarcity of credit, of the ability to procure checking accounts which can be drawn against in making payments, is of far greater moment. The total demand for deposit or check currency is many times as great as the demand for money or bank-note currency.

Under the national banking system it was practically impossible for the banks to expand materially either their note issues or their deposit currency in time of crisis. To issue notes a bank had first to expend cash to a greater amount in the purchase of government bonds to secure the value of the notes to be issued. Moreover, it was usually extremely difficult to secure the bonds required. The note issue, accordingly, was very inelastic.

While deposit currency could be expanded as long as the reserves were plentiful, the necessary expansion incident to the crisis could not be met. Replenishment of reserves is absolutely essential to an extensive expansion of deposit currency. But the banks were unable to increase their reserves. Normally a bank might be expected to do in time of stress what an individual does, namely, sell or pledge as security for a loan more of its available assets or property. But, except in a limited way through the agency of clearing-house associations, there was no means by which the banks could convert their assets into cash. Our national banking system was decentralized and non-co-operative; and in time of trouble each bank endeavored to save itself regardless of others, with the devil taking the hindmost. There was no central agency or institution to which banks that were hardpressed could turn for accommodation. Credit or deposit currency was therefore almost as inelastic as bank-note currency.

125. How a Panic Was Averted in 1914[31]

It is possible that there have never been two months in the history of the United States since the Civil War when so many and such far-reaching financial and commercial problems were presented as have been offered during August and September of this year. Beginning with the sudden outbreak of the war, drastic and unprecedented fluctuations in securities, cotton, chemicals, and other commodities were witnessed. They were accompanied by a suspension of practically all communication with outside countries, due to the unwillingness of shipowners to continue the operation of their vessels from fear of capture. The total annihilation of export trade for the time being, as well as the partial destruction of import business, produced serious financial and labor difficulties in the United States. At the basis of the whole situation lies the financial problem that was forced to the front by the declaration of war.

Hardly had the actual outbreak of the war become known when the closing of the European exchanges gave the signal for similar action in the United States. On August 1, the New York Stock Exchange closed its doors, and this example was shortly followed by the cotton and coffee exchanges, and by the Consolidated Stock Exchange. The immediate reason for the closing of the New York Stock Exchange was twofold: (1) Europeans, foreseeing a tremendous draft on their resources, hastened to sell investment securities in the only great market untouched by war. To this end European holders of American stocks and bonds cabled their bankers in New York to dispose of securities at practically any price. This process was in operation during the days before the closing of the Exchange and had already caused heavy shipments of gold to Europe. Had it been allowed to continue, it would have, almost certainly, deprived the United States of a very large proportion of its gold stock; (2) Stock Exchange operators who had obtained bank loans protected by collateral security saw that the reduction of prices on the Exchange which would necessarily ensue would effectually "wipe them out," while the banks which were "carrying" these persons understood that, if obliged to "call" the loans thus made, they would still further aggravate the pressure of selling orders and would bring about widespread ruin in the financial world.

The confessed closing of the exchanges, because of the danger of loss of gold and of depreciation of prices, naturally tended to arouse serious alarm in many minds, and withdrawals of cash both from the banks and from the Treasury began to be heavy. Almost

[31]Adapted from "Washington Notes," in the *Journal of Political Economy*, XXII, 791–793 (1914).

simultaneous with this condition was the declaration of a so-called "moratorium" by most of the principal countries of Europe. This prevented Americans who had maturing European claims from collecting the amounts due them until a later date than they had expected. Hence such persons were compelled to draw more heavily upon their home bank accounts and so far as possible finance themselves through fresh loans at the banks. Fearing the heavy draft on their resources that was thus threatened, the New York banks almost immediately had recourse to the "national currency association" which had been organized after the adoption of the Aldrich-Vreeland Act.[32] Other banks promptly took like action. Applications were at once made to the government for the issue of emergency currency, and it was resolved also to employ an issue of clearing-house certificates. Both of these methods were sanctioned by the government on August 2, and on the following day the work of issuing the certificates and notes was actively begun. It was found, however, that the Aldrich-Vreeland Act placed some serious obstacles in the way of an easy issue of currency. In consequence a bill for the relief of this state of things was introduced in Congress and was signed by the President on August 4. This amendatory act reduced the tax on Aldrich-Vreeland notes for the first three months of their circulation to 3 per cent and raised the limit of issues to 125 per cent of capital and surplus. While no public announcement was made of the issue of clearing-house certificates, it is known that in both New York and elsewhere an enormous amount of such certificates were issued. The emergency currency taken out under the amended legislation already referred to expanded so rapidly that by the opening of September more than $250,000,000 of it had been issued. The emergency currency was freely accepted by individuals, and banks in New York as well as elsewhere adopted the policy of paying it out whenever possible while holding gold. Thus the financial stringency was narrowly averted.

[32]The Aldrich-Vreeland Act of May 30, 1908, attempted to create an elastic currency for use in emergencies. It provided for the formation of "national currency associations" by ten or more national banks having an aggregate capital of $5,000,000. Upon application of one of these associations, the Comptroller of the Currency, with the approval of the Secretary of the Treasury, was permitted to issue circulating notes not to exceed 75 per cent of the commercial paper or 90 per cent of the state, county, and municipal bonds which were required to be deposited with the Treasury as security. The total of additional notes for the entire country was not to exceed $500,000,000. A tax of 5 per cent per annum for the first month was imposed upon the issue of these notes. An additional tax of 1 per cent per annum was imposed for each month until a tax of 10 per cent per annum was reached.—Editor.

126. Provisions for Elasticity in the New Currency Act[33]

BY L. M. JACOBS, JR.

The new banking system of the United States, as provided in the Act of December 23, 1913, has as its central feature the establishment of twelve Federal reserve banks,[34] under the control of a Federal Reserve Board appointed by the President. The United States is to be divided into twelve districts, in each of which a city is to be designated as a Federal reserve city. National banks are required and state banks, under certain conditions, are eligible, to become members of regional reserve bank associations.

The Federal Reserve Board is to be the dominant factor in the new banking system. It consists of seven members, the Secretary of the Treasury, the Comptroller of the Currency, and five persons appointed by the President, with the approval of the Senate. Two of the five are to be experienced bankers. The regular term of these members is ten years. This Board is to have, within the law, general supervision of the banking system. The functions of the Federal Advisory Council, composed of representatives from the Federal districts, is largely advisory.

Each Federal reserve bank is to have nine directors, three selected by the Federal Reserve Board, and six elected by the member banks. They are authorized to receive from member banks deposits of currency or cheques and drafts upon solvent member banks payable on presentation.

Upon the indorsement of any of the member banks any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions. The Federal Reserve Board is to have the right to determine the character of the paper thus eligible for discount. Paper to be admitted to discount must have a maturity of not more than 90 days, except that paper growing out of agricultural transactions with a maturity not exceeding six months may be discounted in limited amounts. No limitation is placed upon the amount of rediscounts a Federal reserve bank may handle for a member bank, but the rediscounts are to be subject to such restrictions as may be imposed by the Federal Reserve Board.

Each Federal reserve bank is authorized to establish from time to time, subject to the review of the Federal Reserve Board, the

[33]Adapted from "The Federal Reserve Law of the United States of America," in *Journal of the Institute of Bankers,* XXXV, 250–259 (1914).

[34]The act as passed provided for a minimum of eight and a maximum of twelve regional reserve banks. The organization of the system has proceeded on the basis of twelve.

rate of discount to be charged for each class of paper, which shall be fixed with a view to accommodating commerce and business.

The law provides that every Federal reserve bank shall maintain reserve in gold or lawful money of not less than 35 per cent against its deposits, and reserves in gold of not less than 40 per cent against its Federal reserve notes in actual circulation. The Federal Reserve Board, however, is empowered to suspend, for a period not exceeding thirty days, any reserve requirement in the act. It can also renew such suspensions for periods not exceeding fifteen days each. However, a graduated tax is to be established upon the amounts by which the reserve requirements may be permitted to fall below the specified level. When the reserve falls between 40 and 32½ per cent, the tax is not to be more than 1 per cent upon such deficiency; if the reserve falls below the latter figure, the tax is to be not less than 1½ per cent upon each 2½ per cent or fraction below 32½ per cent. Banks in central reserve cities are required to maintain a reserve of 18 per cent of their demand deposits and 5 per cent of their time deposits. Banks in cities of the second class are required to keep 15 per cent of demand deposits and 5 per cent of time deposits. Country banks are required to maintain 15 per cent reserve against all deposits.

The act authorizes the issuance of Federal reserve notes at the discretion of the Federal Reserve Board for the sole purpose of making advances to the Federal reserve banks. These notes are to be obligations of the United States and to be receivable by all national and member banks and for all taxes. They are to be redeemed in gold on demand at the Treasury Department or in gold or lawful money at any Federal reserve bank. Any Federal reserve bank may make application for such amount of Federal reserve notes as it may require, the application to be accompanied with a tender of collateral equal to the amount of notes applied for. This collateral is to be comprised of notes and bills acceptable for rediscount. The Federal Reserve Board may at any time call upon the Federal reserve bank for additional security to protect the notes issued to it.

Each Federal reserve bank is to maintain reserves in gold of not less than 40 per cent against its Federal reserve notes in actual circulation. Not less than 5 per cent of the gold reserve held by a Federal reserve bank to protect the notes outstanding must be deposited with the Treasurer of the United States, and further amounts may be called for.

The Federal Reserve Board is given the right to accept or reject in whole or in part the application of any Federal reserve bank for Federal reserve notes, but to the extent that such application may be granted the Federal Reserve Board will supply Federal reserve notes

to the bank so applying. The bank will be charged the amount of the notes and will pay such rates of interest as may be established by the Federal Reserve Board.

When Federal reserve notes are issued to a Federal reserve bank they will have printed on their face a distinguishing number by which Federal reserve banks will be known, and it is made unlawful, subject to a penalty of 10 per cent of the amount, for any Federal reserve bank to pay out the notes of any other Federal reserve bank. Notes of other Federal reserve banks received by a Federal reserve bank are to be promptly forwarded for credit or redemption to the issuing bank.

127. Emergency Elasticity of Credit

BY HAROLD G. MOULTON

Emergency elasticity of credit and loans will be secured under the currency system through what is known as rediscounting commercial paper.

Suppose the First National Bank of Joliet should, when the country is face to face with a crisis, find itself confronted with a heavy demand for commercial loans. This means that a large number of business concerns wish to borrow on their promissory notes, and receive a deposit account against which they can draw checks to meet current payments. It will be remembered that a bank must keep a certain percentage of cash reserves to deposits. Suppose now the cash of this bank is at a minimum, and that, if it makes further loans on commercial paper, the reserves will fall below the legal requirement. Under the old system the bank would have had to refuse the loans to the detriment of legitimate business enterprise. But under the new law the Joliet bank is enabled to increase its reserves, and thereby enlarge its loaning capacity by rediscounting some of the promissory notes in its possession with the Federal Reserve Bank in Chicago. Let us make this matter of rediscounting clear.

When John Jones needs money he may take a note for $1,000 that he holds against William Wilson to his bank in Joliet and sell it to the bank for cash. The bank will give him $1,000 minus interest for the time the note has yet to run. What the Joliet bank does for John Jones is precisely what the Federal Reserve Bank in Chicago will do for the First National Bank of Joliet. When this bank needs cash it can take this note which it has discounted and have it discounted by the Federal Reserve Bank. The Joliet bank will get $1,000 less the interest for the short time the note still has to run.

This second discount is what is known as a rediscount. The Federal Reserve Banks are, therefore, bankers' banks, and they do for the individual member banks precisely what the individual banks do for their customers generally. This ability to convert paper into cash and thereby increase its reserve enables the Joliet bank to extend loans to its customers even under severe financial pressure.

Suppose that a bank in a rural community in the Chicago district finds, in the face of an emergency, that there is a heavy demand for loans in the form of bank notes. How can the increased quantity of notes be obtained? Under the new law elasticity of note issue is gained by permitting the issue of notes secured by commercial paper or bank assets. The country bank desiring to issue more notes sends some of the promissory notes of customers to the Federal Reserve Bank in Chicago for rediscount. The latter may upon this paper as security have printed new bank notes and send them to the country bank. This gives an elastic bank-note currency because the demand for more money itself brings into existence the commercial paper that is to be the security for the new notes. A farmer, for example, wants money with which to pay his laborers. So he gives his banker a promissory note, which is secured by the crops soon to be marketed. His banker rediscounts the promissory note and turns the necessary bank notes over to the farmer. But when the need is passed this currency is contracted. The farmer sells his crops and pays his promissory note at the bank. The bank now pays these notes over to the Federal Reserve Bank in Chicago to meet the obligation which had resulted from the rediscount. Bank notes equal in quantity to the amount issued have now come back to the place of issue. The payment of the obligation which brought them forth has automatically retired them.

By these means panics can be substantially checked if not prevented altogether. In the face of a heavy pressure of loans at a time of crisis, any bank can avail itself of the process of rediscounting. This enlarges the loaning power of the banks, makes it possible for legitimate business concerns to secure bank accommodations when needed, and thereby prevents failures. A business which is unsound or mismanaged is not entitled to and cannot obtain loans from a bank. It deserves to fail, and its early failure will be distinctly beneficial. But the business concern which is fundamentally sound and well managed ought to be able to secure banking accommodations. The new currency law permits this; and at the same time the ability of the banks to provide more currency and to expand loans enables banks to meet all obligations, forestall runs, and escape failures.

128. Emergency Elasticity of Note Issue[35]

BY FRED M. TAYLOR

From the beginnings of agitation for currency reform the advocates of elasticity have recognized more or less clearly two kinds: (1) that which we may call seasonal or ordinary elasticity, and (2) that which we may call emergency elasticity. By the latter is meant the power of a note issue to adjust its volume to those extraordinary changes in need which connect themselves with the typical banking panic.

Passing over the question of the adequacy of the new note issue in respect to seasonal or ordinary elasticity, let us consider its adequacy in respect to emergency elasticity. Broadly speaking, it is certain that at this point the new law will get a fairly favorable verdict. The banking panic, when fully developed, gives rise to three difficulties and to three needs: (1) funds to relieve the antecedent stringency which threatens a complete collapse of the credit structure; (2) a circulating medium for ordinary financial trade when a general suspension of payments by the banks has brought on a money famine; and (3) a prompt and thoroughgoing contraction of the circulation in the depression which follows the panic.

There can be doubt that under the new law the availability of an issue sufficient in volume instantly to relieve the antecedent stringency, and so to put a stop to the panic before it has developed to serious proportions, is assured. In fact it is not at all improbable that the new reserve banks will be able to check the development of such a panic at the very outset without increasing at all their note issues. But, if this does not prove true, there seems no doubt that the new system will insure the forthcoming of such currency both of a quality and in a quantity which will be fully adequate for the task put upon it. (1) The notes to be issued, being obligations of the Federal Treasury, will be as acceptable as gold even on the eve of a panic. (2) There is no limit to the absolute amount of these notes. (3) The practical limit set by the requirement that discounted paper shall be furnished as the basis for their issue is of no real significance, since such paper will undoubtedly be vastly greater in volume than any need which could arise.

Let us pass to the second need which is to be met, that of an ordinary circulating medium for trade when banks have by common consent suspended payment. In the first place, if we are right in supposing that the new law will prevent any panic from reaching

[35]Adapted from "The Elasticity of Note Issue under the New Currency Law," in the *Journal of Political Economy*, XXII, 454, 460–463 (1914).

such a degree of intensity, it is obvious that we shall not have occasion to meet this particular difficulty. If, however, this does not turn out to be correct, if panics can still go so far as to suspend payments, as to hold on to every form of reasonably solid money, and as to try to satisfy the public with substitutes, our verdict for the new currency will be less favorable. The new law does little or nothing to relieve such a situation. Broadly speaking, the new money will be altogether too good to meet this particular need. Banks that had reached a stage of panic sufficiently intense to cause them to suspend payment would be sure to hoard money as good as these notes are bound to be. The new issue would immediately pass into hoards and, therefore, would bring little if any relief to the currency famine which had developed. In fact it is almost impossible to conceive any form of note fitted to this particular task except one so bad that there was no danger of its being hoarded. The only proper way to meet this particular need is to make sure that it does not rise at all.

We come finally to the third need which is to be met, that of a prompt and general contraction of the circulation when the panic has passed and the inevitable business depression consequent upon such a panic has set in. Here again, though not in the same degree as in the last case, if the new law proves as successful as anticipated, the need in question will be little experienced. We shall usually escape the extreme business inflation of the ante-panic period; the panic itself will be much abated, if not completely eliminated; and, in consequence, the trade reaction which naturally follows a panic will be much diminished in intensity. Yet, it can hardly be doubted that, after even an incipient panic, there will be some reaction, and consequently a more or less plethoric condition of the currency will follow. Will the new issue have sufficient contractility to meet the need? In general the conditions attached to the new issue are not favorable to contractility. They do not provide for either the prompt driving home or the prompt drawing home of the notes when the necessity for their issue is past. Outsiders lack adequate motives for sending these notes home; issuers lack adequate motives for calling them home. The case for emergency contractility is, however, strengthened by one or two peculiar conditions. First, it is probable that the homing power of the note will prove greater at such a time than in an ordinary year, for, at such a time, outside banks will not be able to find investments for their funds, since speculative trading will disappear and business generally will be at a very low ebb. Again, it seems that the issuing bank will, in this case, have more than the usual motive for bringing about a contraction of the circulation. In ordinary times a bank will gain more by using the funds in

its possession to make loans rather than to retire notes, assuming that the interest charge made by the Federal Reserve Board is not placed excessively high. Consequently banks will not be eager to retire their own notes. But, in the depression that follows a panic, no reserve bank will have opportunity for keeping all its funds busy; and since in this case the interest charge, however small, will be a dead loss, the bank will have adequate motive for effecting, as promptly as possible, an adequate contraction of its note liabilities. This motive would be still further strengthened if the glut proved sufficient to cause a decided drain of gold, since, in that case, the reserve banks will find difficulty in maintaining the required 40 per cent reserve. On the whole, then, we seem warranted in affirming that, as respects emergency elasticity, the new notes will give no serious disappointment.

I. CONTROL OF THE INDUSTRIAL CYCLE

129. Panic Rules for Banks[36]

BY WALTER BAGEHOT

In time of panic, advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made. The end is to stay the panic; and the advances should, if possible, stay the panic. And for that purpose there are two rules:

First. That these loans should be made only at a very high rate of interest. This will operate as a heavy fine on unreasonable timidity, and will prevent the greater number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

Secondly. That at this rate these advances should be made on all good banking securities, and as largely as the public asks for them. The reason is plain. The object is to stay alarm, and nothing, therefore, should be done to cause alarm. But the way to cause alarm is to refuse someone who has good security to offer. The news of this will spread in an instant through all the money markets at a moment of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the banks will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business. That

[36]Adapted from *Lombard Street*, 10th ed., 199–200 (1873).

in a panic the banks should refuse bad bills or bad securities will not make the panic worse; the "unsound" people are a feeble minority, and they are afraid even to look frightened for fear the unsoundness will be detected. The great majority, the majority to be protected, are the "sound" people, the people who have good security to offer. If it is known that the banks are advancing on what in ordinary times is reckoned good security, the alarm of the solvent merchants and bankers will be stayed. But if securities really good and usually convertible are refused by the banks, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

130. The Part of Individual Responsibility[37]

BY THEODORE E. BURTON

The only sure remedy for these periods of depression is that suggested by Lord Beaconsfield, "the alchemy of patience." The depression is a condition that must be recognized and met; any attempt to ignore it or to indulge in confidence when there is no ground for it will only involve further disaster. A cure cannot be hastened except by the best of care and the co-operation of the patient. At the same time there is every ground for confidence in the ultimate recovery.

Too much confidence must not be placed in the action of government. Just as good laws and effective administration are rather essentials of prosperity than creative of it, so also they are more potent in preventing depressions than in remedying them. So far as human agency is concerned, intelligent individual action must do the most.

Upon the individual as investor hangs a heavy responsibility. He should follow rules enjoining prudence and careful calculation, particularly that of Professor Jevons: "In making investments it is foolish to do what other people are doing, because there are always sure to be too many people doing the same thing." Were this heeded, investments would distribute themselves more evenly, causing industry to pursue a steadier course.

In the same connection is a rule worthy of consideration—namely, to be careful about investing in undertakings from which an exceptional return has been realized. Profits in all enterprises tend toward equality. After making due allowance for the skill and trustworthiness required, risk incurred, and regularity of employment,

[37]Adapted from *Financial Crises*, 267–269. Copyright by D. Appleton & Co. (1902).

investments afford approximately the same profit. If there is an exceptional return from any line of investment, it is almost certain that the business will be overdone.

Divers suggestions might be made upon the necessity for higher standards of honesty and better education. But these are obvious enough, and their attainment must be worked out in lines other than economic.

Many, discrediting the ability of individuals to work out their own salvation, have proposed the construction of public works in times of depression. The danger of this is that people will fall into the fallacy of working for the sake of working, and will not appreciate the fact that work is valuable only in case it produces something of utility. A definite market value is a trustworthy guide to utility which is absent in such cases. There is the further danger that as numerous laborers are withdrawn from their usual lines of employment to engage in public work, they will, when times have improved, be unable or unwilling to return to their former employments, and thus the productive power of the country will be crippled. It is true, however, that municipalities and states are greatly benefited by certain improvements which are of permanent value, and to which capital may appropriately be applied, such as good roads, better sewers, paved streets, etc. At a time when materials are low and labor is unemployed, these improvements may profitably be made, provided they are carefully considered with a view to their permanent value, and not merely with the object of giving employment.

In short, education and experience must lead to a more intelligent direction of productive energy. Patient, well-directed effort must meet the problems presented by changes from year to year. It is best not to depend upon the government of any country for relief, but upon the individual action of its citizens. There is much foundation for the saying of Jeremy Bentham: "Industry and commerce ask of the state that which Diogenes asked of Alexander, 'Keep out of my sunshine.' "

131. Bettering Business Barometers[38]

BY WESLEY C. MITCHELL

The American man of affairs who seeks to keep informed about the trend of business conditions relies upon the financial columns of his daily paper, one or two of the financial weeklies, and a special

[38]Adapted from *Business Cycles,* 591–595. Copyright by the author (1913). Published by The University of California Press.

trade journal. The data which he can compile from these sources cover a considerable range.

Commodity prices at wholesale are represented by actual quotations and by index numbers like Bradstreet's. The prices of loans on call and on time for thirty days to six months are reported for New York, together with the market and bank rates in London, Paris, and Berlin. The prices of securities are published in detail, and to show the general trend of the market there are convenient records, such as the *Wall Street Journal's* average of twenty railway and twelve industrial stocks:

Fluctuations in the volume of business must be estimated from various sources: bank clearings, railways' gross earnings, number of idle cars, imports and exports, coal, copper, pig-iron and steel output, shipments of grain, live stock, etc. Government crop reports help to forecast the probable state of trade in various agricultural sections. Quite helpful are the reviews of business conditions in different papers.

Information about the currency is supplied by the official estimates of the monetary stock, by reports of gold imports and exports, by the recorded movements of money into and out of the New York banks, and by the figures concerning the production and industrial consumption of gold, and the distribution of money between the banks and the public. Regarding the banks there are telegraphic statements from the central institutions of Europe, as well as a variety of domestic reports from clearing-house and national and state banks.

Some idea of the volume of investment and speculation going on may be obtained from the transactions of the New York Stock Exchange, the number of building permits granted, the mileage of railway under construction, etc.

Last and most important, the prospects of profits are best shown for the railways, whose gross and net earnings are regularly published. The earnings of the United States Steel Corporation probably stand second in general esteem. Then comes a mass of information supplied by the reports of large corporations engaged in mining, manufacturing, banking, etc. The other side is shown by the statistics of bankruptcy compiled weekly by two great mercantile agencies.

Though far from complete, this list of materials is far too long for the average business man. To compile and analyze the available data requires more time, effort, statistical skill, and analytical ability than most men have for the task. Hence the typical individual skips the bewildering evidence and reads only the summary conclusions

drawn by the financial editor. That the studying of business barometers and the forecasting of business weather has become a profitable business affords convincing proof of the need and difficulty of using effectively the available materials. It is from such specialists that we may expect the improving and disseminating of the information required as a basis for perfecting social control over the workings of the money economy.

Professional forecasters do not find the data at hand too elaborate. What they most need to improve their forecasts is more extensive and more reliable materials to work upon. But it is also quite possible to better the use they make of the data already available.

Among the most needed additions to the list of business barometers are the following:

A general index number of the physical volume of trade could be made from data showing the production of certain staples, the shipment or receipts of others, the records of foreign commerce, etc. Much material for this purpose is already incidentally provided in official documents. Separate averages should be struck for the great departments of industry, since the difference between the relative activity in different lines would often be not less significant than the computed changes in the total.

The proposed plan for obtaining reports concerning the volume of contracts let for construction work and the percentage of work performed on old contracts merits careful consideration. Few sets of figures would give more insight into business conditions when prosperity was verging toward a crisis or when depression was endangering prosperity.

An index number of the relative prices of bonds and corresponding figures showing changes in interest rates upon long-time loans would not be difficult to prepare. Even if standing alone these two series would possess great value as reflecting the attitude of investors; but they would be still more useful if accompanied by data concerning the amounts of bonds and short-term notes put upon the market by business enterprises and by governments.

Certain states have made a beginning in providing statistics of unemployment. But we have no comprehensive data of this kind. Their value, not only as an index of welfare among wage-earners, but also as reflecting changes of activity within important industries and changes in the demand for consumers' goods, is such as to make the present lack a matter of general concern.

Most to be desired are statistics which would show the relative fluctuations of costs and prices. Unhappily the difficulties in the way

of obtaining such figures are particularly grave. But certainly every extension of public authority over corporate activity should be utilized to secure such uniform methods of accounting as have been imposed on the interested railways, and the reports obtained by the government should be made available in some significant form for the information of the business public.

The old barometers of business could also be considerably improved. The index numbers of commodity prices at wholesale would be more useful if separate series were computed for raw materials and for the articles manufactured from them, and if the raw materials were subdivided into farm, animal, forest, and mineral products. The differences between the fluctuations of these several groups would be of assistance in determining the causes, and therefore the significance of changes in the grand total. Further, an index number of identical commodities in the United States, England, France, and Germany would facilitate the effort to follow the concomitant courses of business cycles in different countries and to anticipate the reaction of foreign upon domestic conditions.

Stock prices should be computed upon the index number plan instead of in the current form of averaging actual prices of shares. To facilitate comparisons the basis chosen should agree with that chosen for commodity prices. The distinctively investment stocks should be separated from the speculative favorites, and separate averages should be struck for railways, public utilities, and industrials. By proper selection fluctuations in the prices of industrial stocks might be made to reflect the fortunes of enterprises especially concerned with providing industrial equipment.

Reports of clearings would be more useful if accompanied by index numbers showing the relative magnitude of the changes in the actual amounts. Separate averages for these figures should be provided for the centres in which financial operations, industrial activity, and agricultural conditions are the dominant factors. Finally, one of the darkest points of current business conditions in America could be cleared up if the rates of discount upon first-class commercial paper in these various centres could be regularly ascertained.

To extend the list of suggestions for bettering figures of the sorts already published would be easy; but enough has been said to make clear the character of the desirable changes. In general, the need is for more careful discrimination between dissimilar data now often lumped together in a single total, the collecting from new centres of data already published for New York, more uniform methods of compilation to guarantee the comparability of what pur-

port to be similar figures, and the computing of relative fluctuations upon a common basis. In many, if not all these cases, a double set of relative figures is desirable—one set referring to actual average amounts in some fixed decade, the other set making comparisons with the corresponding period of the previous year.

132. The Severity of the Trade Cycle in America

BY W. A. PATON

The peculiar characteristics of Modern Industrialism which make it susceptible to serious disturbance are too well known to require detailed description. They include the detached and impersonal relations between producer and consumer, and producer and investor; the interdependent nature of co-operative production; the extreme length of the productive process; the unstable character of demand in dynamic society, and frequent and radical changes in technique. These characteristics are universal throughout the Western world; yet American industry has been particularly subject to industrial disturbance.

The inadequacy of our banking system and credit facilities has often been urged as the explanation. Since we use credit to a far greater extent than European countries, we have particular need for stability in banking and credit. It is hoped that the new Federal Reserve System, by giving in a higher degree than before these characteristics, will do much to modify the severity of the ebb and flow of the trade cycle. But it needs to be emphasized that banking reform can never be more than a palliative. Lax banking and unsound currency systems do something to breed speculative fever. But the fundamental conditions leading to the severity of these disturbances lie deeper.

First among these is the supreme optimism which has always characterized American industrial development. Here was a vast new continent, with an abundance of land, minerals, natural power, and other resources untouched. People from all countries were drawn into the task of developing these resources. To them America was the long-sought-for "promised land." There were no rigid class walls; there existed every opportunity for "self-development." A loose social system and the reaction of the physical environment made it inevitable that the bourgeoise attitude should prevail. The immigrant who, as a peasant in Europe, has no thought of changing his status; the native frontiersman, Yankee son of the old New Englander; the prospector looking for diggings—in each you had

the would-be capitalist. There was also the man with capital looking for sudden wealth in the shape of land concession, franchise rights, or public contracts. The situation, the large class of speculative investors, great and small, and the political organization, making a fetish of the principle of let-alone, could not but induce a highly speculative, over-optimistic attitude toward industry.

A partial justification of American optimism made it the more speculative. The scarcity of labor incident to the opening of a new country, the demand for improved transportation facilities to permit the utilization of new lands and new resources, and the rapid and comprehensive extension of the machine technique into line after line of production, did much to convince the American that anything is possible.

The changes in industrial technique have been more rapid and more extensive than in any other country. The greater and increasing dependence upon machinery has led to increasing complexity in the productive process, as well as to its greater length. The disturbance in the labor market, such as temporary unemployment, which has been chronically incident to its introduction, is but a single example of the strain and shock to which the system as a whole has been subjected.

But minor causes have also been at work. The influx of laborers from abroad has continually altered the proportions between the productive factors. In this country, filled with people who have broken away from their old surroundings, custom and tradition have had comparatively little force; among us it has been hard for conventions, even those adapted to the new situation, to be built up; and the situation as a whole has been particularly sensitive and variable, especially in demand.

This brief statement suggests the essential aspects of the American industrial structure which has given it its peculiar dynamic character, and has made it more highly sensitive to irregularity than that of any other country. A word should be added to indicate how these conditions may intensify the severity of the trade cycle. The great speculative optimism of the American people, together with the need of improved technological equipment, leads to a greatly increased demand for capital goods—producer's goods. This means that a great deal of labor power and a large volume of capital are devoted to producing these kinds of goods. In other words, in America there is an unusual heaping up of society's productive resources in the initial stages of the long-time process. This process continues for some time, the boom period. The length of time necessary to permit these investments to yield returns is gen-

erally underestimated, as was the case particularly with many of the early American railway projects; and in other cases the ventures are ill advised and could never become profitable. In such a situation many entrepreneurs find themselves embarrassed when their obligations fall due, and a great many failures ensue. Building and development work halts abruptly; prices of raw materials fall very sharply; all prices go down in sympathy, and a more or less severe period of readjustment follows.

In view of the conditions above described, it is difficult to see how this country could have had its very rapid development without these accompanying periods of stress. As the country becomes older, as technique becomes more dependable, as social conventions standardize demand, as efficient government checks the wildest displays of speculative fever, as speculative capital has to look for golden opportunities abroad, and as we have to look more toward internal organization and economy, rather than to external accident, for industrial gain, the ebb and flow of trade depressions will be less and less severe. We are perhaps nearer than we know to the orderly period wherein their rhythm is as circumscribed as in prosaic Europe.

VI

PROBLEMS OF INTERNATIONAL TRADE

Problems come and go, but the tariff seems to be a permanent American institution. In a country where "every man is his own political economist" it possesses a perennial freshness. It has, time and again, been proved guilty at the polls of raising and lowering the standard of living, of increasing and decreasing wages, of creating and destroying monopoly, of abetting and discouraging immigration, of producing crises and causing prosperity. In part this has been due to an easy association of the question with sentiments of nationalism; the absence of grave social problems, such as are found in more mature societies; and the popular idea that it is a simple and manageable piece of mechanism. But, in part at least, its popular hold has been legitimate. It has been intimately associated with the development of the country, and it has served as an instrument for controlling our development.

However particular tariff questions may be stated, the real issue lies in the antithesis between protection and free trade, which are the ends of the tendencies underlying particular programs.

The theory of free trade is "a mere corollary to the principle of the division of labor." Foreign, like domestic, trade, "allows increased specialization," and consequently "increases the aggregate of wealth." A study of the mechanism of exchange shows that "goods are paid for with goods." "Foreign trade fixes its own limits." The tariff, if used, should have as its object the raising of revenue; it should leave "industrial conditions as it finds them." The argument implies a conception of industrial society in static terms, is an aspect of the general theory of laissez-faire, and rests upon a belief in the efficacy of price as an organizing force.

The strength of protection lies in a mercantilist spirit as old as society. Tradesmen have always been willing to use agencies of social control to increase their sales. This disposition is revealed in the inhibitions against buying goods out of town, supported by custom or opinion; in the attempts of legislatures to exempt manufacturing establishments from taxation; and in duties placed upon imported goods.

Nevertheless, there is a social theory of protection. It rests upon the concept of a developing society, the necessity of social direction of that development, and the possibility of determining, partially at least, its course by assessing, raising, lowering, and removing duties upon imported goods. It implies a constant adaptation of the "tariff policy" to the changing condition of the country. This theory reveals itself in the arguments that protection can transform an agricultural into an industrial society, develop a nation strong in arms, add industry after industry to the national wealth, and "scatter plenty o'er a smiling land" by piling up huge aggregates of capital.

All of these things, it is asserted, it has accomplished for American society. Unfortunately we have no trustworthy evidence of the rôle it has played in the transformation of our system. The histories of the tariff are largely records of what has happened to it rather than of what it has done. The argument "from experience" has failed to disentangle the influence of the tariff from the vast complex of "forces" which together have made our system what it is. Yet it is quite evident that the tariff has played its part in the creation of our highly pecuniary, industrial, and urban culture. The development of manufacturing and mining, upon which the structure so

largely rests, would have come without protection; for our abundant natural resources could not be ignored; but a highly accelerated movement necessitated high prices, increasingly large quantities of cheap labor, and larger and larger aggregates of capital. Protection promised high prices; the open door to immigrants offered cheap labor: either would have sufficed. But to make assurance doubly sure we chose both. Protection, with other agents, has transformed resources into stupendous incomes, out of which large aggregates of capital have been saved and reinvested. Thus it has been an active factor in our "prosperity." It need not be said that, in view of changed conditions, its potency in the past is no guaranty that in future it can play an identical rôle.

But our social scheme has proved too complex for it to accomplish just the industrial effects it was intended to accomplish and no more. With complementary factors, it has induced a gigantic, clumsy, feverish development of manufacturing and mining; it has caused a headlong "lunge" in a particular direction. But it has induced the inevitable attendants of this growth—urban life, city comforts, luxury, slums, poverty, and vice; greater concentration of wealth and more pronounced class differences; a medley of races and a babel of tongues; a clash of political and ethical systems; a vast array of bewildering problems. It has been responsible for development in ethics, politics, and social life, though it has been impotent to direct this development. It has made the attention to these aspects of social life more imperative than ever, though the "prosperity" which it has induced has served to delay our attention to the question of whether the older institutional system is adéquate for the newer industrial life. In short, it has induced growth, faster than we have been able or willing to perfect means for controlling that growth. Its results, too, have been accompanied by prodigious waste. That its "good" is so conspicuous is due largely to our enjoyment of gains from the exploitation—the *over*-utilization—of our natural resources and our passing of the costs to succeeding generations.

Aside from the theoretical difficulties, the method of its use prevents protection from being an adequate means of social control. Since a legislative body is depended upon for tariff laws, we may well say, "Protection is all right in theory, but it will not *work* in practice." Did you ever hear of Congress, when considering a tariff bill, giving attention to the "end" to be reached, noting carefully the larger social as well as the purely industrial results of anticipated duties, carefully calculating gains against costs, and on this basis fixing duties for periods just long enough to secure the desired results? Or have you rather noted that, without attention to general principles and the relation of particular duties to these, a tariff bill is evolved through an aggregation of compromises between particular interests?

But the tariff is still our heritage. At present there is some disposition to treat it as a "moral issue" intimately connected with the fact of class and the distribution of income. There is a demand, perhaps waning but still strong, for a "scientific revision." This finds its source, partly in a protest against the way in which Congress draws a tariff bill, and partly in a superstitious reverence for whatever wears the label "scientific." Its weakness is that it fails to see that science can furnish only a mechanism, and that the nature of the tariff depends largely upon the theory underlying legislation. There is a cry for "freer trade" from manufacturers who believe that our industrial future lies "beyond the seas." And, of course, there is the perennial cry for higher duties and more of them. But, above all, there is reason for believing that the limitations of the tariff for good or bad are being more clearly seen, and that in the future it will be supplemented by other and more delicate instruments of control which together can impart to social life a more symmetrical development.

A. THE BASIS OF INTERNATIONAL TRADE

133. International Co-operation[1]

BY CHARLES GIDE

The advantages of international trade are not susceptible of arithmetical calculation. They are too complex for such simple methods, and are found on both the side of imports and that of exports.

The following are the advantages of importation:

I. Additional well-being is imparted by the imported goods which a country, because of its resources or climate, could not have produced within its own borders. For example, without international commerce, Holland could have no building stone, Switzerland no coal, England little lumber and no wine, France no copper, and the United States no tea or coffee.

II. Economy of labor is realized when wealth is imported that could be produced at home only at a higher cost than abroad. France could make good machinery, but it is more profitable to import it from the United States, which is better provided with coal, iron and facilities for manufacturing. To realize this advantage it is not necessary that the importing nation be inferior in the production of the good it receives from abroad. It may be to its advantage to import goods which it might produce under even more favorable conditions than the country which sends them. Cuba, for example, might be able to produce wheat more advantageously than the United States, but also to produce sugar even more advantageously. In this case it will be more profitable for Cuba to raise sugar and import wheat, despite her advantage over the United States in the production of wheat; for thus she can purchase through sugar what otherwise would have cost her more labor to produce. Thus it may happen that a country in all points superior to its neighbors will find it profitable to import goods from them.

An allied advantage is that whenever an accident of any sort unexpectedly reduces the productivity of one country, it may depend upon others to remedy this accident, which, in the absence of international commerce, might have disastrous consequences. Thus international commerce provides a kind of insurance against famines and against the severe stress of national panics and depressions.

Although a nation could perhaps produce a sufficient quantity of many commodities which at present it imports, the quantity at

[1]Adapted from *Principles of Political Economy*, 2d American ed., 303–307. Translated by C. William A. Veditz. Copyright by D. C. Heath & Co. (1903).

home could be increased only at a very great cost in labor and capital and a consequent increase in prices. The United States, for example, imports a large quantity of lead. If imports were cut off, it would be necessary to work poorer mines, and incur the necessarily greater costs, which, in higher prices, will obviously fall upon the consumers of lead.

As for exportation, the following are its advantages:

I. It utilizes natural resources and productive forces which, if there were no foreign outlet, would be superabundant, and therefore partially useless. Were it not for exportation, Peru would not know what to do with her nitrates, Australia with her wool, Spain with her wines, Pennsylvania with her iron and steel, nor the South with its cotton.

II. It develops a nation's industry. It is well known that the extent of the division of labor and the progress of large-scale production are proportionate to the size of the market. Division of labor cannot be at all detailed when the market is small, whereas with every extension of the market a more elaborate division of labor and the introduction of more expensive but in the long run more productive processes and machinery becomes possible. International trade, by creating world-wide markets for goods, tends to develop the division of labor; it leads to a fuller utilization of the possibilities of the soil and the population, to a completer development of acquired aptitudes, and hence to a great increase of the productive energy of humanity. England could never have become the great manufacturing nation it now is, did it not export to all parts of the world. The possession of an extensive market made it possible for her to make immediate and profitable use of the latest inventions and improvements in manufacturing.

134. The Law of Comparative Costs[2]

BY FRED M. TAYLOR

Here is a lawyer who very likely can mow his lawn, cultivate his garden, and take care of his furnace much better than the persons whom he hires to do these things. But what he does is to devote himself to his profession, and buy the services named from other people; and of course he acts wisely in so doing. It is clear that he gains most by devoting himself to the thing for which he is best fitted. He is not interested in the fitness or unfitness of his neighbor as compared with himself, but rather in the superiority of

[2]Adapted from *Principles of Economics,* 2d ed., 75–77. Copyright by the author. Published by the University of Michigan (1913).

his own fitness in one line as compared with his fitness in another line. So long as he can find a market for his output, it is better for him to devote his time to doing the things for which he is pre-eminently fitted, and get his supplies of other things from his neighbors, even though he can make those other things better than they.

It is evident that in this respect the case of the community or the nation is like that of the individual. The upper peninsula of Michigan produces little but copper and iron, getting most other goods through exchange with other communities. Yet it would be easy to prove that this section is really better fitted to produce some of the things which it buys than the sections from which it buys them. The explanation is to be found in what has long been known as the Law of Comparative Costs. It may be stated as follows:

Ignoring cost of transportation, two communities find it profitable to specialize respectively in the production of two commodities and to exchange those commodities each for the other, provided the comparative real costs of the two commodities in one community are different from their comparative real costs in the other community.

Let us illustrate. Letting labor represent all real costs, suppose that in England the cost of a ton of iron is 25 days' labor and the cost of a yard of broadcloth is 5 days' labor; while in America the cost of iron is 16 days' labor and that of broadcloth 4 days' labor. These costs may be expressed in the following proportions:

Eng. cost Iron : Eng. cost Cloth :: 25 : 5
Amer. cost Iron : Amer. cost Cloth :: 16 : 4

Since in England a ton of iron costs five times as much as a yard of cloth, it will naturally tend to be worth the same as five yards of cloth; under which conditions England can afford to give iron for cloth if, and only if, she can get more than five yards per ton; or trade cloth for iron if, and only if, she can get it with less than five yards per ton. In America, on the other hand, a ton of iron tends to be worth four yards of cloth; under which conditions America can afford to trade iron for cloth if, and only if, she can get more than four yards per ton; or to trade cloth for iron if, and only if, she can get it with less than four yards. But the first hypothesis for England and the second for America are plainly shut out. England cannot get more than five yards of cloth for iron, since in America it is worth only four yards. So America cannot buy with less than four yards of cloth since it is worth five yards in England. On the other hand, the second hypothesis for England and the first for America fit each other perfectly. England can get iron for less than five yards, since it is worth only four in America; and America can

sell iron for more than four yards of cloth, since it is worth five in England. Accordingly, under the conditions supposed, an exchange of English cloth for American iron would be profitable.

It goes without saying that if one nation is absolutely inferior to its neighbor in respect to the production of one commodity and absolutely superior in respect to the production of another, then, obviously, the comparative costs of these commodities in one country are different from their comparative costs in the other, and so exchanging them will pay.

But, as the argument above has shown, it is equally clear that if a nation is absolutely superior to another in the production of each of two commodities, it will produce the one in which its superiority is the greater, and will import the latter. Likewise, if a nation is inferior to its neighbor in each of two commodities, it will produce the one in which its inferiority is less, and import the other.

135. The Theory of Free Trade

The theory of free trade is nothing else than a deduction from the advantages of foreign trade, or rather, of trade. The industrial policy of a people is concerned, not with the welfare of classes or the productive profits of particular individuals, but with securing for the people as a whole from the limited social resources at their command the largest amount of material wealth. This involves a problem of economic organization. This problem can be solved in two ways, logically antithetical, as well as in innumerable intermediate ways which combine the two primary solutions.

The one is the resolution of the economic world into a large number of infinitely small districts. In each district there is a body of people, a fund of accumulated capital, and land possessed of definite productive powers. The people, capital, and products of each district are to be kept clearly within the confines of the district. Commercial intercourse and personal movement from district to district are to be prohibited. Thus each district is called upon to solve its own problem in economic organization. It must directly satisfy the wants of its own people; to that end it is compelled to make the best possible accommodation of its labor and capital to its natural resources. It need not be said that under such a system of small self-sufficient units, few wants could be satisfied; little capital could be accumulated; the advantages of specialization would be lost; little natural skill could be developed; and only limited potentialities of the natural resources could be utilized.

The alternative is the treatment of the economic world as a single industrial unit. Population and capital are to be allowed

freely to move wherever they please; there is to be no barrier to the free exchange of goods. The problem of economic organization is to be worked out for the economic world as a single entity. Under freedom from interference, population and capital will gravitate towards those places where they can get the largest returns, or where they can best utilize nature's contributions. Where they go, industries will be established. The goods produced will not have to be consumed in the region in which they are produced; they will likewise naturally seek the places where they can command the highest prices. Under this system the people of any territory do not seek directly to supply all their own wants. They produce surpluses of the goods in the making of which natural resources or acquired skill make them pre-eminently fit, and exchange them for similar surpluses produced by their neighbors, far or near. Such an economic organization is nothing else than a territorial division of labor. It makes industry more efficient through the better utilization of natural resources, through the development of specialized skill, and through the larger volume of capital accumulated out of the larger earnings. The expenses of trade are a tax upon this system; but the exchange which trade makes possible pays at least its own expenses. If it failed to do so, it could not be carried on. In the majority of cases it yields, in addition, a surplus to both parties.

Neither of these alternatives can be perfectly realized. The former cannot be, because it is practically impossible to find a unit of territory logically small enough. The latter cannot be, because of the expenses of transportation. The cost entailed by distance will always involve the element of a scattering over wide territories of the establishments producing many separate goods. It will permit only a few localized industries to satisfy world-wide demands. But distance is to be looked upon, not as a friend, but an enemy, to material progress. Every invention in transportation which reduces the costs of carriage is to be regarded as a means to greater social economy, and as an effective device for extending still further the market, specializing more narrowly in production, and swelling the volume of material goods. On the contrary, everything which increases costs must be looked upon as a device tending to break society up into smaller groups, decrease the area of the market, and reduce the amount of material wealth. Now, protection is a system of taxes the object of which is to cause industrial society to be organized in a smaller group than otherwise it would be. It is nothing else than an increase in the costs of carrying goods from place to place. Consequently its interference with the establishment of a natural economic organization prevents the fullest utilization of limited

social resources and leads to the production of a smaller volume of goods than would be attained through free trade.

The theory of free trade is premised upon the proposition that a trade yields an advantage, not to one, but to both parties to the transaction. Since society is an aggregate of individuals, trade in aggregate yields a corresponding advantage. Political lines are artificially drawn. Their presence cannot affect either the nature or the advantages of trade. Therefore the way to fullest national prosperity, not for particular individuals or industries, but for society as a whole, is through the policy of untrammeled commerce.

B. THE MECHANISM OF INTERNATIONAL TRADE

136. The Theory of International Exchange

Let us try to determine how settlement is made by a country for goods bought abroad. It is evident that the trade in question is not between the countries involved, but between individuals living in these countries. To get to the heart of the matter, let us take a very simple illustration:

Suppose that Brown, a New York exporter of wheat, sells to Carpenter, a London importer of wheat, 10,000 bushels of wheat at the rate of five bushels for £1. Suppose, too, that at approximately the same time, Dixon, a London exporter of china, sells to Andrews, a New York china merchant, a consignment of china valued at £2,000. It is evident that as the matter stands, Andrews in the United States must remit £2,000 to Dixon in London, and that Carpenter in London must remit £2,000 to Brown in the United States. If each debtor sent the actual money to his creditor, the money would have to cross the ocean and come back again.

But, cannot some economy be devised to avoid the trouble and expense of this useless shipment? It can be done very simply. Brown, let us say, meets Andrews. He tells Andrews of his sale of grain; Andrews, in turn, tells him of his importation of china. Together they hit upon a plan of avoiding the shipment of gold to cancel the debts. Brown writes out an order on Carpenter instructing him to pay the sum due him to Andrews. This he presents to Andrews, who, in return, pays him in gold the American equivalent of £2,000. Since the amount of gold in one pound sterling is equal to $4.8665, this amounts to 2,000 times $4.8665. Andrews indorses the order which he has received from Brown and sends it to Dixon in payment for his china. Dixon, in turn, presents it to Carpenter, who pays him £2,000. Thus, it is evident, both Brown and Dixon have been paid in full the amounts due them, and Andrews and Carpenter

have discharged their full indebtedness. Yet not a single gold coin has made the ocean voyage.

Although the illustration just taken is much simpler than what actually happens, it fully embodies the principles. There are three complications which keep the matter from working out so simply. The first is that the Brown and Andrews of our illustration are not likely to know each other personally. This difficulty is obviated by the establishment of exchanges. Brown takes his draft to the exchange and sells it, thus securing payment for the amount due him. Andrews goes to the exchange and buys a draft, which he sends to Dixon in discharge of his obligation. An exchange broker acts as intermediary, and the matter is as nicely handled as in the illustration above.

The second difficulty is that the drafts bought by the exchange are not always of just the denominations to accommodate those who wish to discharge foreign indebtedness. This difficulty is as easily obviated. The exchange, let us say, establishes a London branch. Drafts bought are sent to London for collection. The collections are deposited to the order of the New York house. This constitutes a fund against which new drafts can be drawn by the New York exchange broker.

The third difficulty is that at any particular time imports and exports do not balance. Consequently there is a tendency for the demand for and supply of bills to fail of exact correspondence. But this difficulty, too, is overcome, at least partially. What is bought and sold, it must be remembered, is gold to be delivered at a particular place, London. If the demand and supply are in exact correspondence, the price of £1 in London will be practically $4.8665. This figure is found by dividing the number of grains of pure gold in a pound sterling by the number of grains in a dollar. But they are not always in exact correspondence. Let us see how much they can vary. Now it is obvious that Brown has two alternatives. He can sell his draft, or he can have the gold due him collected in London and brought to New York. To take the latter alternative will cost him in freight and insurance charges nearly 3 cents. Since he collects $4.8665 in London, he will receive net about $4.8385. Accordingly, it is to his advantage to sell his draft, rather than import the gold, if he can secure for it anything above $4.8365. Similarly, Andrews has two alternatives. He can buy a draft, or he can send gold to London to discharge his indebtedness. Since it will cost him about 3 cents per £1 to follow the latter course, this will amount to paying $4.8965 for every £1 due in London. Accordingly he will prefer to buy a draft if he can secure it for a figure lower than

$4.8965. The figures $4.8365 and $4.8965 are, therefore, called "the gold points," the former being the importing point, and the latter the exporting point for gold.

It will be shown in a later reading that as the rate of exchange tends to approach the lower point, owing to extensive selling abroad, this in itself stimulates imports, which tend to increase the demand for exchange and hence to lower its price. And, similarly, when the rate tends to approach the higher point, exportation is stimulated, and as a result more bills are thrown on the market, thus bringing down the price. Thus in general the volume of imports and exports does not for a very lengthy period present very serious discrepancies. It may then be safely said that international trade is a very complicated system of barter.

137. The Favorable Balance of Trade

BY THOMAS MUN[3]

Although a Kingdom may be enriched by gifts received, or by purchases taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by *Forraign Trade,* wherein wee must ever observe this rule; to sell more to strangers yearly than wee consume of theirs in value. For suppose that when this Kingdom is plentifully served with the Cloth, Lead, Tinn, Iron, Fish, and other native commodities, we doe yearly export the overplus to forraign Countreys to the value of twenty-two hundred thousand pounds by which means we are able beyond the Seas to buy and bring in forraign wares for our use and Consumptions to the value of twenty hundred thousand pounds: By this order duly kept in our trading, we may rest assured that the Kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much Treasure; because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure.

For in this case it cometh to pass in the stock of a Kingdom, as in the estate of a private man; who is supposed to have one thousand pounds yearly revenue and two thousand pounds ready money in his Chest: If such a man through excess shall spend one thousand five hundred pounds per annum, all his ready money will be gone in four years; and in like time his said money will be doubled

[3]Adapted from *England's Treasure by Forraign Trade, or The Ballance of our Forraign Trade Is the Rule of Our Treasure,* chap. ii (1664).

if he take a Frugal course to spend but five hundred pounds per annum, which rule never faileth likewise in the Commonwealth.

BY CHARLES W. FAIRBANKS[4]

The history of our foreign trade during the sixteen years following the Cleveland administration shows that our commerce continually expanded under the protective policy. One of the fine things about it was that our exports far exceeded our imports; that is to say, we sold abroad more than we bought abroad, and as a result there was a substantial trade balance in our favor. The excess of our domestic exports over imports in the sixteen years ending March 1, 1913, was $7,348,942,251. The magnitude of this addition to our national wealth may be more fully realized when we reflect that the total net balance to our credit upon our foreign commerce from George Washington's first term to William McKinley's first term was less than $400,000,000.

Our free-trade friends seem to ignore the wisdom of keeping our money at home so far as we reasonably can by buying at home. Whether we send abroad a hundred millions of dollars more or less to pay for commodities produced by foreign labor is a matter of slight importance to them. We who hold to the protective system conceive it to be sound policy to patronize our home producers where possible, and keep the money in our own midst. If it goes abroad, it is, of course, withdrawn from our pockets, but if it remains at home it goes into the circulation of our own trade and our countrymen—laborers and farmers, merchants and manufacturers—have a chance to get it sooner or later.

138. The Mystery of the Balance of Trade[5]

BY HARTLEY WITHERS

The statistics published by our Board of Trade show that for 1912, which is a typical year, our net imports, including bullion, amounted to £702,000,000, while our exports, including bullion, reached only £552,000,000. This gives a net excess of imports over exports, including gold shipped both ways, of approximately £150,000,000.

[4]Adapted from an address entitled "Let Us Now Unite in the Old Faith," delivered before the Indiana Republican State Convention at Indianapolis, April 23, 1914.

[5]Adapted from *Money-Changing: An Introduction to Foreign Exchange*, 51–63, 78–82. Published by E. P. Dutton & Co. (1913).

Now this huge excess of imports, which is much bigger in the case of England than in that of any other country, is often very terrifying to people who have not thought much about the subject. It is commonly called an adverse balance of trade, a phrase which has an uncomfortable sound, as if there was something chronically rotten in the state of our commerce, and it is sometimes used as a proof that other countries are continually pouring goods into us and taking nothing from us in return, and that this is a state of things which ought immediately to be stopped in the interests of the national welfare. If this were true, it would seem, on consideration, to be rather a comfortable state of affairs. Any individual who could arrange his commercial relations with his fellows on these lines would be likely to wax very fat. To be always consuming more than he produced is just the sort of life that would have been thoroughly agreeable to the Economic Man. With a nation, likewise, it would seem to tend to the enjoyment of plenty with little effort.

But, in fact, these things do not happen. The other countries of the world have not conspired together to kill England with kindness and give us £150,000,000 worth of goods every year for nothing. Goods are never sent anywhere unless there is a reasonable certainty that the country to which they are sent will be able to pay for them. The foreign seller of goods expects to be paid in money of his own country by selling his claim through the machinery of exchange. But if the importing country were always buying more than it sold, the supply of claims on it would be continually greater than the demand for them and the exchanges would be steadily going against it, and it would either have to export gold or export promises to pay as long as it could finance itself on Mr. Micawber's principles.

Now it is certain that we are not exporting gold. Year in and year out we import more gold than we export. It is also certain that we are not on balance exporting promises to pay, either our own or other people's. If we were doing the former, we should be raising loans abroad or exporting or selling our securities abroad, neither of which things we are doing. If we were exporting other people's promises to pay, it would mean that we were selling to foreigners out of our holdings of foreign securities. But this is not happening to any great extent. Nor do rates of exchange move steadily against us, as they must if we were really leading the profligate life of commercial dissipation that a glance at the figures might lead the unwary to infer.

It is thus clear that the big gap between our recorded exports and imports of goods is filled by unrecorded, and so usually called

"invisible," exports of various kinds of services, and that there is no need to be frightened about it. England does about one-half of the carrying trade of the world. It is quite evident that these carrying services do not themselves pass through custom-houses, and hence are "invisible." And it is evident that a large part of our surplus of imports consists of payments for these services which we are performing for foreigners.

In addition to this there is an equally elusive factor in the shape of the import and export of securities and interest on capital. Almost every country in the world is a lender or a borrower. The borrower exports securities, or promises to pay, and takes in return the goods or services it requires. Later on, when interest payments fall due, the lender has coupons to export, and the borrower has to ship goods to meet them. When Russia raises a loan in France it exports its bonds or promises to pay, and sells them to thrifty French investors. Thereafter French investors export coupons every half-year to Russia, representing claims of interest due. Thus the exportation of securities and the subsequent exportation of coupons by the lender both tend to produce the same result, a balance of visible imports.

Consequently we find that this adverse balance—or excess of visible imports—is a feature in the trade figures, both of the young and go-ahead countries that are habitual borrowers and are always exporting securities, and of the old established nations that have plenty of accumulated capital to spare and have placed blocks of it abroad, and so always have plenty of coupons to export. In both of these cases there is an invisible export, in one case of securities, in the other of coupons, which usually has to be met by visible imports of goods, which thus create a so-called adverse trade balance. The so-called favorable trade balance, under which a country shows more goods going out than coming in, is chiefly shown by those nations which have reached the stage of being in a position to pay interest on borrowed capital out of their own productions, without having to borrow more from their creditors in order to meet interest. The United States is typical of the last class, Canada and England of the first. The actual import of securities, then, should tend to produce an excess of exports, and an export of coupons to secure a surplus of imports.

But there are other invisible items that get into the total. Every American who goes forth with his Baedeker to widen his mental horizon in England brings with him a supply of notes. These have been bought for gold in New York, and consist of claims on London merchants created by the importation of American goods. Conse-

quently his notes pay for the beefsteaks which he, an American, consumes under English skies, and for the invisible culture which he takes back to his native land. The goods which he consumes in England are properly to be regarded as English exports.

Another streamlet which sometimes swells into a respectable torrent is made by the many drops poured in by poor immigrants into new countries, who send home to their kinsmen such small sums as they can spare. In this respect Italy is believed to score heavily. The Italians seem to take with them the home-grown power of living largely on sunshine and good humor, and the sums they send home are an important cause of the power shown by Italy to maintain a so-called adverse trade balance, without the assistance of investments abroad or the profits of a big carrying trade. Ireland is another country that takes toll of the rest of the world through the filial piety of her sons who have gone abroad to seek their fortunes in lands where thews and sinews find a better market than at home.

Another class of emigrant in another way helps the older countries by causing a drain on the country of its origin. This class is formed by the wealthy American heiresses who find English and European husbands and draw year by year large sums from the United States in the shape of dowries, so that this item in the trade balance is usually called the "dowry drain." In this case Europe and England can balance against the excess of imports the exportation of conjugal affection and social prestige.

The presence of these items, which escape customs statistics, shows that after all our exports and our imports balance each other, and that there is no real balance of trade.

139. The Reciprocal Character of International Trade[6]

BY FRED M. TAYLOR

Let us remember the fundamental fact that settlement between the merchants of different countries is made, not directly, but through the assistance of exchange dealers. That is, the claims of each community on other communities get into the hands of exchange dealers who settle with the exchange dealers of the other communities. This means that there is developed a traffic in such claims; they are bought and sold like flour or iron. Every day the prices of such claims per unit of value are quoted in every important newspaper. Like the prices of other things, the prices of exchange

[6]Adapted from *Some Chapters on Money*, 128–134. Copyright by the author. Published by George Wahr (1906).

rise and fall, according as the demand rises or falls, or as the supply falls or rises. Thus exchange on London ranges from about $4.835 per English sovereign to about $4.895, its natural par being $4.8665. If we are selling to Europe much more than we are buying from her, so that claims on Europe are very abundant in New York, London exchange will drop to, say, $4.84 or $4.835. If, on the other hand, we are buying much more than we are selling, so that the demand for claims on Europe is very much greater than the supply, the price will go up to, say, $4.89 or $4.895.

These rises and falls have a vital relation to the movement of gold. The going or coming of gold is entirely a matter of price, or rate of exchange. If the rate is as high as $4.895, this means that there is on the market practically no exchange having its origin in sale by us to the rest of the world; so that, if any is wanted, it must be created by sending gold. This rate further means that the exchange dealer can afford to send gold in order that he may create exchange which he can sell at the prevailing price; for, at that price, he will get his money back at a fair profit. Below that point, however, he could not afford to send gold for the purpose, since the cost added to the natural price of the bullion would exceed the price obtained from the exchange. Accordingly, if anything happens when exchange is at $4.895 to make exchange abundant and bring down the price, the exporting of gold for exchange purposes will at once become unprofitable, and, hence, cease.

But, not only does the exporting of gold depend upon the rate of exchange, this is also true of the exporting of goods. The rate which makes it profitable to export gold also makes it more than usually easy to export goods, to induce foreigners to buy goods. Thus, suppose you are a wheat exporter and hope to make a 10,000-bushel sale to a certain Liverpool miller. If you do so you will have ready for sale to your banker a bill of exchange for, say, £1,650. Now if with exchange at par the proceeds of this draft, $8,028.90, would give a fair profit on the deal, it is plain that with exchange at $4.895 they would give you an additional profit of $47.85. Plainly then you could afford to shade the price a little in order to make a sale more likely, i.e., you could offer a price of 80 cents a bushel rather than one of 80¼ cents. In large transactions of this sort, a difference of ¼ of a cent, or even ⅛ of a cent, often determines for or against a sale. It follows, therefore, that high rate of exchange acts as a stimulus to increase exports.

The consequence of the increase in exports, due to the high rate of exchange, will manifestly put some foreigners in debt to us. It will therefore increase the supply of claims on other countries. But

this increase will tend to lower the rate of exchange till it is less than $4.895. But this is the rate necessary if gold is to be exported. Hence the increase in exports due to the high rate of exchange will tend to stop the export of gold.

The chain of reasoning is now complete. Gold cannot go until exchange reaches a very high point. But a high point for exchange stimulates exports; the increase in exports presses down the rate of exchange; and the lowered rate of exchange stops the outflow of gold.

But other factors are working to the same effect. A persistent net movement of money tends to be stopped by the action of conditions which its own continuance establishes. In other words, a money-drain is self-corrective.

Its first check upon itself is to cause an inflow of floating capital. The process is as follows: First, a money drain from any country —which will of course be a drain from its chief commercial and banking center—tends to make the stock of money in that centre relatively small. This will affect especially the surplus reserve of the banks, since it is from this reserve that money for export will be taken. Second, this depletion of reserve will tend to raise temporarily the rate of discount on short-time loans. Third, the high rate of discount thus established will make the country a desirable market for lenders, and so will tend to draw in the floating capital of neighboring countries. But, finally, as such a movement must in the nature of the case be a rapid one, it will almost necessarily stop the gold drain. In ordinary cases, this process is adequate to stop an excessive drain. But, if it does not prove to be so, a new and slightly different series of reactions follow and usually effect the desired result.

Under modern conditions there are many securities having an international character. The prices of such securities are soon affected by the causes which lead to an inflow of floating capital and so to the inflow of money. That is, when the bank reserves of New York become scanty and the rate of discount rises, it quite probably leads to a fall in the prices of securities. For a large part of the buying of securities is based on borrowed capital; and, therefore, if money is hard to get, the inclination of people to buy the securities is diminished. In consequence the demand falls off, perhaps the supply is increased, and inevitably their prices will fall. But if the prices of securities fall, foreigners will be encouraged to buy them. In turn this buying will give New York a supply of exchange on Europe. As a result the rate of exchange will fall below the gold point, thus making the export of gold no longer profitable. Thereupon the drain will cease.

There is yet another chain of causation which comes into operation, probably a little later than the others. The same high rate of discount, if long continued, leads to a fall in the price of the great export staples, such as cotton and wheat, which are speculated in like securities, and this fall in price leads to increased buying by foreigners, which makes foreign exchange abundant, which in turn, lowers the rate and checks the outflow of money.

Finally, if the outflow could go on long enough to produce a scarcity of money in the country as a whole there would result a general fall in prices which would stimulate foreign buying all along the line, until the direction of the money movement was completely reversed. As a consequence of the action of these several checks there is never any danger that an export of money will go on until a country is denuded of its precious metal. This is equivalent to saying that international debts are usually paid in goods, or that international trade is reciprocal.

C. THE DEMAND FOR LOCAL PROTECTION

140. Keeping Trade at Home[7]

"A dollar spent in Auburn gives you another chance at it; but, if it is spent out of town, it's 'Good-bye Mary.' "

"Down with the parcels post. No more diabolical device was ever perfected by the big cities for stripping the small towns and country districts of all their surplus cash. Let the rich mail-order houses wax fat with the dollars that are the property of local merchants."

"Everything bought from the city takes just so much money out of town."

"The summer boarders are a great blessing to our little village; they put into circulation a lot of money which means at least temporary prosperity."

"If I were mayor, and had my way, I would place a fine of one hundred dollars on every man who ordered goods from a mail-order house."

"The individual can get rich only by selling more than he buys. Likewise a community can prosper only by selling to other communities more than it buys from them."

"Brethren, let me call your attention to the fact that Brother Hiram Johnson, who, this week, is opening a new grocery store on

[7]It seems unnecessary to give a specific reference to the source of each of the excerpts given below. The reader by a little attention to local papers can easily duplicate it. The editor is indebted to Taylor, *Principles of Economics,* for several of these excerpts.

Main Street, is a member of this church. If you patronize him, you will not only contribute to the prosperity of an excellent grocer, but you will be helping a fellow Christian and Methodist."

"The European war will in a way, too often overlooked, contribute vastly to the prosperity of the Pacific Coast. Americans annually have been spending more than $200,000,000 in foreign travel. No sane man can for a moment doubt that practically every dollar of this is lost to the home circulation. Now it will be spent in travel to the Pacific Coast. California will get the largest share of it. This money will spell prosperity for every one of the state's industries. But, we must remember the duty we owe our state. We can profit by this increase in wealth only if we keep clearly in mind the precept that it must be spent for things produced at home. Let us see to it that the dollars thus given us do not find their way out of the state."

"When I came to Marblehead they had their houses built by country workmen and their clothes made out of town, and supplied themselves with beef and pork from Boston, which drained the town of its money."

"The annual influx of students and other outsiders into our fruit belt to engage in fruit-picking and packing is an abuse that should be stopped at once. These people consume very little, saving their money to take back to Ann Arbor, Madison, Champaign, and other places from which they come. Thus, while making large sums off us, they give little or nothing in support of our industries."

"The county commissioners should be promptly impeached and removed from office for their action of last Monday. We understand that the contract for the building of the new courthouse was let to the Knoxville firm only because their bid was $1,800 under that of our fellow-citizen James R. Robertson. Robertson, as we are all aware, is an expert at this line of work, and was well equipped to do a handsome job. The only excuse which the commissioners give is the $1,800. But, against this must be set down the $32,000 which will be paid to the Knoxville gang. Think of it! Sending $32,000 out of town to save a paltry $1,800."

"The *Gazette* has always been outspoken in favor of education. Our stand in favor of university, college, and school cannot be questioned. We do not wish to question the wisdom of our fellow-citizens who are sending their children away to school. But we do wish to remind them of a duty which they owe it to the town not to neglect. They should see to it that their sons and daughters are supplied with clothes and all other necessary articles before they leave home for their schools. Our citizens owe nothing to the merchants of the communities in which these colleges are located. But

they do owe a debt to the town which gives them homes. And they should see to it that the money spent for necessary articles is kept here as far as possible."

"'Now look here, Doc,' said the dollar to the dentist, 'if you'll only let me stay in this town, and won't send me to Roars, Sawbuck & Co.'s in Chicago for that shaving mug, I'll circulate around and do you lots of good. You buy a big beefsteak with me, and the butcher will buy groceries, and the grocer will buy dry goods, and the dry goods merchant will pay his doctor's bill with me, and the doctor will give me to the farmer for oats with which to feed his horse, and the farmer will buy fresh beef from the butcher, and the butcher will come around to you to get his tooth mended. In the long run you see I will be more useful to you here at home than if you send me away forever.'"

"The recent cold spell, which caused a large number of water pipes to burst, has been a bonanza for business. Few things in the last year have caused so many people to dig down into their jeans and cough up the cartwheels that spell prosperity."

141. Remember Colorado[8]

The people of Colorado are going to build a wall around the state and close the gates this year so that not one dollar of the $200,000,000 which will be received from our crops shall go outside the border line. The wall is to be built of a solid unflinching sentiment in favor of spending this $200,000,000 at home and making it work for our own prosperity.

The members of the Denver Chamber of Commerce have taken their coats off in behalf of the *Times's* movement and will ask every commercial organization in the state to assist. The newspapers of the state see in the movement a chance to keep the wheels of industry humming in every city, town, and village in Colorado, and will join in the campaign.

"Colorado has a $200,000,000 crop yield this year and this $200,000,000 is going to be spent among the merchants, the tradesmen, the manufacturers, and the workingmen of our own state." The above is the only platform in this campaign in behalf of a prosperous state. Last year we sent some $20,000,000 to eastern mail-order houses alone. Half of the value of our crops went outside of the state to eastern manufacturers and merchants whose only interest in Colorado is to get all the money possible out of its people. It is to keep this money in the state and make it work and keep on working for our own people that this campaign has been organized.

[8]Adapted from a leading article in the *Denver Times,* of July 31, 1912.

Do you know, Mr. Citizen and Mrs. Housewife, just what it means to produce a $200,000,000 harvest in Colorado and keep the money at home? It means prosperity for your grocer, your butcher, and your dry goods merchant. It means banks full of money with which business can be conducted. It means passenger trains full of people instead of empty coaches. It means that the laboring men will have jobs and steady salaries and happy homes, well-fed children and smiling wives.

Every man, woman, and child in Colorado has a part to perform in this great work. Buy your shoes, hats, clothing, and underwear from your local merchants. Ask them to give you Colorado-made products whenever possible. Spend your money for Colorado-made agricultural implements, wagons, carriages, and automobiles. Keep that $200,000,000 at home! Be selfish—in the sense that you are part of the state—for once in your life! Don't let the East feed on the grain while we eat the husks. Don't let the best of that $200,000,000 crop get away from Colorado.

This campaign is for a richer, better, and greater state. Now is the time to begin before the stream of wealth has swept beyond our borders. Preach this gospel of Colorado for Colorado! Organize local clubs, wear buttons showing your sentiment, and fight for your state. If a half or third of this $200,000,000 is allowed to go East this year it will work for the prosperity of other communities and leave Colorado in a position where it will have to begin all over again. Now that we have it in sight, let's hold on to prosperity in the way that will count.

142. The Seen and the Unseen[9]

BY FREDERIC BASTIAT

Have you ever had occasion to witness the fury of the honest burgess, Jacques Bonhomme, when his scapegrace son has broken a pane of glass? If you have, you cannot fail to have observed that all the bystanders, were there thirty of them, lay their heads together to offer the unfortunate proprietor this never-failing consolation, that there is good in every misfortune, and that such accidents give a fillip to trade. Everybody must live. If no windows were broken, what would become of the glaziers? Now, this formula of condolence contains a theory which it is proper to lay hold of in this very

[9]Adapted from the essay *The Seen and the Unseen,* quoted in Walker, *Political Economy,* 321–323. (1850).

simple case, because it is exactly the same theory which unfortunately governs the greater part of our economic institutions.

Assuming that it becomes necessary to expend six francs in repairing the damage, if you mean to say that the accident brings in six francs to the glazier, and to that extent encourages his trade, I grant it fairly and frankly, and admit that you reason justly.

The glazier arrives, does his work, pockets the money, rubs his hands, and blesses the scapegrace son. *That is what we see.*

But, if by way of deduction, you come to conclude, as is too often done, that it is a good thing to break windows—that it makes money circulate—and that encouragement to trade in general is the result, I am obliged to cry, Halt! Your theory stops at what you see, and *takes no account of what we don't see.*

We don't see that since our burgess has been obliged to spend his six francs on one thing, he can no longer spend them on another.

We don't see that if he had not this pane to replace, he would have replaced, for example, his shoes, which are down to the heels; or have placed a new book on his shelf. In short, he would have employed his six francs in a way in which he cannot now employ them. Let us see, then, how the account stands with trade in general. The pane being broken, the glazier's trade is benefited to the extent of six francs. *That is what we see.*

If the pane had not been broken, the shoemaker's or some other trade would have been encouraged to the same extent of six francs. *This is what we don't see.* And if we take into account what we don't see, which is a negative fact, as well as what we do see, which is a positive fact, we shall discover that trade in general, or the aggregate of national industry, has no interest, one way or another, whether windows are broken or not.

Let us see again how the account stands with Jacques Bonhomme. On the last hypothesis, that of the pane being broken, he spends six francs, and gets neither more nor less than he had before, namely, the use of a pane of glass. On the other hypothesis, namely, that the accident had not happened, he would have expended six francs on shoes, and would have had the enjoyment both of the shoes and the pane of glass.

Now, as the good burgess, Jacques Bonhomme, constitutes a fraction of society at large, we are forced to conclude that society, taken in the aggregate, and after all accounts of labor and enjoyment have been squared, has lost the value of the pane of glass which has been broken.

D. THE PERENNIAL ARGUMENT FOR RESTRICTION

143. Gold and Wealth[10]

BY MARTIN LUTHER

Gold has brought us Germans to that pitch that we must needs scatter our gold and silver in foreign lands, and make all the world rich and ourselves remain beggars. England should indeed have less gold, if Germany left her her cloth; and the king of Portugal also would have less if we left him his spices. Reckon thou how much money is taken out of German land without need or cause in one Frankfort fair, then wilt thou wonder how it comes that there is a penny left in Germany. Frankfort is the silver-and-gold hole through which everything which sprouts and grows among us, or is coined and stamped, runs out of German lands. If this hole were stopped, we would perchance not hear the complaint how on all hands there is naught but debts and no money, and all provinces and cities are burdened and exhausted by interest-paying.

144. What the State Owes to Industry[11]

BY GEORGE B. CURTISS

History teaches that no nation of modern times has established the industrial arts and reared a great manufacturing structure under international competition. Our manufacturing industries as well as our wondrous industrial and commercial civilization did not come out of chaos; they did not spring into existence and grow by themselves; they have been established and reared under that system of protection which was founded and designed as the architect plans a building or an engineer lays out a bridge. We have had no manufactures enumerated in our census returns which were not named in our tariff schedules. Our success has not been achieved without a constant unremitting struggle. We have gradually grown and expanded our industries by increasing tariff duties and perfecting our protective system, and every time we have reduced duties to the competitive point our industries have declined and we have gone backward. The importers and manufacturers of the Old World even under our protective system, have been a constant menace to our growth. The great American industrial fortress, the home

[10]Adapted from the address on "Trade and Usury," in the *Open Court*, XI, 18. Translated by W. H. Carruth. Copyright. (1524.)

[11]Adapted from a letter written January 7, 1914, accepting an invitation to attend the annual meeting of the American Protective Tariff League. Published in the *American Economist*, LIII, 26–27.

market, has ever been under a constant siege. The importers and foreign manufacturers have scaled our tariff walls fraudulently to supply our people with the wares made by the poorly paid labor of the Old World. Congress has finally run up the white flag and surrendered the fortress; it has given to our industrial enemies the freedom of our cities. In the great war for industrial and commercial supremacy which has raged so long in the world of business and of commerce, our President has finally intervened in behalf of our enemies, and the invading army of the Old World is moving forward to subdue and possess our market.

A hundred million of people in the United States, occupying a plane of wages and industrial civilization 150 per cent higher than the wage scale and mode of living of three hundred millions of people in Europe, by the irresistible force of international competition, are to be leveled down to the plane of the Old World. The American market, the greatest and most profitable in the world, is offered as the price to be fought for in a warfare in which the competitors have the unquestionable advantages of millions of experienced, efficient, and well-disciplined labor, working at low wages. The final outcome of such a struggle does not admit of difference of opinion. The economists and statesmen of the world, of all schools of political economy, agree that the nation of the higher wage scale and more expensive mode of living will be the weaker party in the contest for supremacy, and must ultimately succumb to its stronger rival.

Wages, prices, and mode of living must yield and succumb to the leveling process of world-wide competition. There is no friendship, patriotism, or brotherly love in this contest. The world of business is no less selfish and no more altruistic than before. American consumers will not buy one cent's worth of goods simply because they are made in American mills by American labor; they will patronize the foreigner if they can save so much as a penny by doing it. Our Presidents, even, have changed. We have no Washington who took pride in being inaugurated in a suit of clothes made by the hands of American labor; nor a Jefferson, who boasted of "purchasing nothing foreign where an equivalent of domestic fabric can be obtained."

The leveling process has already begun. The law of gravitation of industries to a common world-wide level under competition operates in the world of business the same as the law of gravitation operates in the physical world. The new law has taken effect. Three hundred millions of energetic, ambitious, selfish, devouring money-getters of the Old World will seize upon every advantage which has been devised for them. The fight is on. It is a struggle for the

almighty dollar. The sooner the American people wake up and understand the true import and logical effect of what has been done, the sooner this stupendous political blunder will be corrected.

145. The Production of Prosperity[12]

BY DANIEL DEFOE

Trade encourages manufacture, prompts invention, employs people, increases labor, and pays wages: As the people are employed, they are paid, and by that pay are fed, clothed, kept in heart, and kept together; that is, kept at home, kept from wandering in foreign countries to seek business, for where the employment is, the people will be.

This keeping the people together is indeed the sum of the whole matter, for as they are kept together, they multiply together; and the numbers, which by the way are the wealth and strength of the nation, increase.

As the numbers of the people increase, the consumption of provisions increases; as the consumption increases, the rate of value will rise at market; and as the rate of provisions rises, the rents of land rise: So the gentlemen are with the first to feel the benefit of trade, by the addition to their estates.

As the consumption of provisions increases, more lands are cultivated; waste grounds are inclosed, woods are grubbed up, forests and common lands are tilled, and improved; by this more farmers are brought together, more farmhouses and cottages are built, and more trades are called upon to supply the necessary demands of husbandry. In a word, as land is employed, the people increase, of course, and thus trade sets all the wheels of improvement in motion; for from the original of business to this day it appears, that the prosperity of a nation rises and falls, just as trade is supported or becomes decayed.

As trade prospers, manufactures increase; as the demand is greater or smaller, so also is the quantity made; and so the wages of the poor, the rate of provisions, and the rents and value of the lands rise or fall, as I said before. And here the very power and strength of the nation is concerned also, for as the value of the lands rises or falls, the taxes rise and fall in proportion.

Trade furnishes money, money pays taxes, and taxes raise armies; and so it may truly be said of trade, that it makes princes

[12]Adapted from *A Plan of the English Commerce,* 8–10, 33–34, in *A Select Collection of Scarce and Valuable Tracts on Commerce,* edited by J. R. McCulloch (1730).

powerful, nations valiant, and the most effeminate people that cannot fight for themselves, if they have but money, and can hire other people to fight for them, become as formidable as any of their neighbors.

Seeing trade then is the fund of wealth and power, we cannot wonder that we see the wisest princes and states anxious and concerned for the increase of the commerce and trade of their subjects, and of the growth of the country, anxious to propagate the sale of such goods as are the manufacture of their own people; especially such as keep the money of their dominions at home, and on the contrary, for prohibiting the exportation from abroad, of such things as are the products of other countries, and of the labor of other people, as which carry money back in return.

Nor can we wonder that we see such princes and states endeavoring to set up such manufactures in their own countries, which they see are successfully and profitably carried on by their neighbors, and to endeavor to procure the materials for setting up those manufactures by all just and profitable methods from other countries.

146. The Ten Commandments of National Commerce[13]

1. Never lose sight of the interests of your compatriots or of the fatherland.

2. Do not forget that when you buy a foreign product, no matter if it is only a cent's worth, you diminish the fatherland's wealth by so much.

3. Your money should profit only German merchants and workmen.

4. Do not profane German soil, a German house, or a German workshop by using foreign machines and tools.

5. Never allow to be served at your table foreign fruits and meat, thus wronging German growers, and, moreover, compromising your health because foreign meats are not inspected by German sanitary police.

6. Write on German paper with a German pen and dry the ink with German blotters.

7. You should be clothed only with German goods and should wear only German hats.

8. German flour, German fruits, and German beer alone make German strength.

9. If you do not like the German malted coffee, drink coffee from the German colonies. If you prefer chocolates or cocoa for

[13]Adapted from a circular widely circulated in Germany in 1910.

the children, have a care that the chocolate and cocoa are of exclusively German production.

10. Do not let foreign boasters divert you from these sage precepts. Be convinced, whatever you may hear, that the best products, which are alone worthy of a German citizen, are German products.

147. The Test of Faith[14]

BY ROSWELL A. BENEDICT

Q. What is Protection?

A. It is a principle. It holds that home producers alone make, and therefore alone own, the home market.

Q. What is Free Trade?

A. Also a principle. It holds that producers abroad should be allowed to compete for the home market.

Q. Who are the Protectionists?

A. Home producers standing by their title to the home market.

Q. Who are the Free Traders?

A. Importers and their pals stealing the home market from its lawful owners.

Q. Wherein does the work of the Protectionists and the Free Traders differ?

A. The Protectionists make and defend while the Free Traders attack and destroy home civilization.

Q. How do Free Traders destroy home civilization?

A. They destroy home production which employs the people, and so substitute violence for industry as a breadwinning craft.

Q. After all, are not those who pass Free Trade laws merely scholars, high minded and pure, moved solely by pride in the common weal?

A. No. It is not pride but price that moves them to sell the home market to the Market Robber. Under whatever color or cover, it is still the Market Robber's silver paid to these, our Judases, by which we are betrayed.

Q. Who is the Market Robber?

A. The importer who robs it of its power to employ home producers in the market made and owned by them.

Q. What is the secret of the Market Robber's power?

A. Market-robbing booty. His competitor, the home producer, is lucky to get 6 per cent a year from his mine, forest, farm, factory, or fishery, while the Market Robber's booty may be 100 per cent,

[14]Adapted from "A Tariff Catechism," in the *American Economist,* III, 62 (1914).

big enough to bribe his way into any market.

Q. Why did the Market Robber fight so hard to break into our market?

A. To steal billions in wages from our home laborers.

148. The Universal Fruits of Free Trade[15]

BY ANDREW YARRINGTON, GENT

1. Consider what quantities of fine Linnens are made in Holland and Flanders, and here worn and consumed, and how many hands it imploys in work to manufacture it, and the great benefit the Dutch gain, being the great Masters of that Trade?

2. Consider, that if these fine clothes were made here, how it would imploy the Poor, raise the price of Land, and keep our Moneys at home; for the Dutch take nothing from us in exchange, wherein the Benefit is in any way considerable to the Publick.

3. Consider, of course, all Linnens bought from France, as Canvases, Lockrums, and great quantities of coarse Clothes, which have of late years so crowded upon us, that it hath almost laid aside the making of Linnen Cloth in England, and thereby the people are unimployed, and the Land lyeth idle and waste.

4. Consider, the French take nothing of any value from us, but it is ready money for their Linnens; so we keep their people at work, and send them our moneys to pay them for it, and our poor are unimploy'd: But if a tax were laid upon their coarse Linnen Clothes, then what is brought out of France into England would be made here of our own growth, to the Nation's great enriching.

5. Consider the Twine and Yarn ready wrought and brought out of the East-Country to make Sail-Cloth and Cordage, which hath taken off the labour of a multitude of people in Suffolk, and thereabouts, and hath so lessened that Trade, that it is almost lost: But if a tax were laid upon the Threds brought over ready wrought, then the Labour of all such things would be here to supply our Poor at work, and raise the price of our Lands.

6. Consider what vast quantities of narrow coarse Clothes come out of Germany, and here vented and worn; the cheapness whereof hath beaten out the Linnen Trade formerly made in Lancashire, Cheshire, and thereabouts: A tax being laid on these Easterling Clothes would occasion the reviving of that coarse Cloth-Trade again with us, and would set multitudes at work.

[15]Adapted from *England's Improvement by Sea and Land: To Out-do the Dutch without Fighting, to Pay Debts without Moneys, to Set to Work All the Poor of England,* etc., 144-146 (1677).

7. Consider, the Foreign Bed-ticking coming hither cheap, hath almost destroyed that Trade in Dorcetshire; and so the spinners are Idle and Land prices fall; and in this, as in other things, we send our Moneys into Foreign parts, to keep their Poor at work and support them; and here we starve our own, and lose that Trade: A Tax upon Foreign Bed-ticking would prevent all this.

8. Consider the vast and infinite quantities of Thred ready spun, that comes down out of Germany into England, and here made use of; It is of late discovered that the cheapness of these Threds will eat out the very Spinning in most parts of England; A Tax being put upon the Threds would put the Wheel to work in England again. This is of great consequence to the Publick, to be taken into consideration; for in this very thing of spun-yarn, no less than Thirty thousand People would be here imployed, if by Law it were encouraged.

E. THE CASE FOR PROTECTION

149. Protection and Industrial Transformation[16]

BY FRIEDRICH LIST

The transition from the savage to the pastoral, and from the pastoral to the agricultural state is very efficiently promoted by free intercourse among nations. The elevation of an agricultural people to the condition of countries at once agricultural, manufacturing, and commercial, can only be accomplished under free trade when the various nations engaged at the time in manufacturing are in the same degree of civilization.

But some of them, favored by circumstances, having distanced others in manufactures, commerce, and navigation, have adopted and still persevere in a policy well adapted to give them the monopoly of manufactures, and to impede the progress of less advanced nations or those in a lower degree of culture. The measures enforced by such nations are called the protective system.

The anterior progress of certain nations and foreign commercial legislation have compelled inferior nations to look for special means of effecting their transition from the agricultural to the manufacturing stage in industry, and as far as practicable, by a system of duties, to restrain their trade with more advanced nations aiming at a manufacturing monopoly. The system of import duties is consequently a natural consequence of the tendency of nations to seek for

[16]Adapted from *The National System of Political Economy, passim.* Translated by G. A. Matile (1841).

guarantees of their existence and prosperity, and to establish and increase their weight in the scale of national influence. Such a principle is rendered reasonable only so far as it renders easy the economical development of a nation.

Such restrictions are of the greatest importance because of the impetus which they give to the division of labor. Individuals would be in vain laborious, economical, ingenious, enterprising, intelligent, and moral, without a division of labor, and a coöperation of productive power. The principle of the division of labor has been hitherto but imperfectly understood. Industrial production depends to a great extent upon the moral and material association of individuals for a common end. This principle extends to every kind of industry.

The division of labor and the combination of productive powers take place in a nation when the intellectual power is applied so as to coöperate freely and efficiently with national production. A merely agricultural people, in free intercourse with manufacturing and trading nations, will lose a considerable part of their productive power and natural resources, which must remain idle and unemployed. It can possess neither an important navigation, nor an extensive trade; its prosperity, so far as it results from external commerce, may be interrupted, disturbed, or annihilated by foreign legislation or by war.

150. America's Allegiance to Protection[17]

BY ALBERT J. LEFFINGWELL

I intend to state a few propositions, which, as generally accepted facts, appear to me to influence very largely the national acquiescence of America in the protective policy. Perhaps they may be heard with more patience from one who has never had the slightest connection with the manufacturing interest; who ought apparently to clamor for the cheapest market, but who is nevertheless, for the following reasons, a firm adherent to the protective system:

1. No country of modern times, which is without manufactures, which exports raw products for foreign made goods, and the inhabitants of which are almost wholly engaged in cultivating the soil, has succeeded in obtaining wealth, prosperity, and power as a nation. This simple fact is recognized by every civilized government in the world. Free-trade at the present day is either an English or a barbarous practice. Even English colonies perceive that they must build up their home industries if they are ever to gain essential

[17]Adapted from an article in the *London Contemporary Review*, XXXVIII, 56–68 (1880).

prosperity. Just so far as Free-Trade contributes to the supremacy of British manufactures, it is a means towards the maintenance of national wealth and power. If it shall ever cease to do this, it will be abandoned.

2. If, during the past fifty years, America had permitted a system of unrestricted trade with all the world, she could never have reached the development of her manufactures which has rendered her independent; but would, today, be little more than a huge agricultural colony, exchanging the produce of her fields for the manufactures and fabrics of Europe. To be a nation of farmers, to excell in sheep-raising and in agriculture—this is the English ideal of what America ought to content herself with being. If there existed between the United States and England a perfectly free and open trade, a distribution of industry unfettered by tariffs, England would be the manufacturing member, and the United States the agricultural member of the partnership.

3. Under the system of protection America has been able to develop her boundless mineral resources, to encourage the growth of her manufacturing industries, until, today, she is not merely independent and able to supply her own wants, but she exports to foreign nations, and has begun to compete with England for the markets of the world. Conclusive evidence of this exists on all sides. The careful observer can not escape it.

4. A protective tariff has been the most important, and, indeed, the essential agent, in the development of the manufacturing industries of the United States. This proposition can hardly be seriously denied at the present time. Through the enhanced prices paid at first by consumers, manufactures have been created and fostered. Perhaps for a while they have been very costly to the nation. But of the result the country can well be proud. It has made them independent of other nations for their supplies. And, in the end, with growth and improvements, goods have fallen in price, greatly to the benefit of the American consumer.

5. The working class in the United States, under a system of protection, enjoy a greater degree of prosperity than the working classes of England under a system of Free-Trade. No test can be more satisfactory and practical than to compare the position of the laborer in one country with his position in another; and, however difficult it may seem at first thought to weigh in the balances privilege, opportunity, comfort, and general prosperity, certain financial facts and statistics afford us a tolerably safe method for arriving at sound conclusions. That the working man here, if thrifty, has a

far better chance for improving his condition, for educating his family, for acquiring landed property than is the case with his brother in Europe is generally admitted. It could not well be otherwise where one may so easily exchange the forge or loom for the settler's cabin and the plow. The great mass of the American working people are better housed, better fed, better clothed, and in all respects better situated than the working millions of the nations whose ports are open to the world.

These are some of the reasons which appear to me to largely determine the persistent allegiance to the doctrine of Protection by the people of the United States. Of the ultimate adoption by nations of the principles of absolute Free-Trade I have as little doubt as the most sanguine disciple of Adam Smith. But it is a dream of the far-distant future. It assuredly cannot be realized while the tramp of armies is louder than the din of the work-shop. By America, however, the day of its adoption may be much nearer our own time. History often repeats itself. Like England, by thorough protection of our growing industries, we have laid the foundations of success in every branch of manufacture. So soon as our preëminence is absolutely assured, there will exist no longer the necessity to protect. Of that future we have apparently every reason to hope. When the production of American skill and industry is found in shops in Europe cheaper than their home-made wares, it is probable that we shall then take our turn in eulogizing Free-Trade, in opening our ports to all nations, and in preaching the blessings of unrestricted trade to a reluctant and still doubting world.

151. Present Validity of the Young-Industry Argument[18]

BY FRANK WILLIAM TAUSSIG

The possibility of good results from protective duties in young countries is now denied by few. A different question, and one not so simple, is whether there is any prospect of gain from protecting young industries in a country as fully developed as the United States has been since 1860; whether, for so robust and full-grown a social body as this has become, ridicule is not a sufficient answer, whatever the terms in which the argument is stated. In that early formulation of the argument which won a respectful hearing from the fair-minded, stress was laid on the general conditions of the country im-

[18]Adapted from *Some Aspects of the Tariff Question*, 20–23. Copyright by Harvard University Press (1915). The practical validity of the argument, with reference to particular commodities, is discussed in succeeding chapters of the book.

posing protective duties. It was a young country that was spoken of by Mill, rather than one having young industries. List's well-known plea rested on the doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stage to the manufacturing stage, and on the advantages of protective duties for furthering and easing the transition. He found the United States in this stage of development when he was sojourning here during the period of our early protective movement. On his return to Germany he found his own country in a similar stage, and agitated for nurturing protection there also. But does the same possibility exist when this period of transition is past, when the manufacturing stage has been fairly entered, when the question no longer is whether manufacturing industries shall be established at all, but whether some particular kinds of manufactures shall be added to others already flourishing?

I am disposed to admit that there is scope for protection to young industries even in such a later stage of development. Any period of transition and of great industrial change may present the opportunity. No doubt the obstacles to new ventures were greater during the first half of the nineteenth century than they have come to be in the modern period. The general diffusion of technical knowledge and technical training, the lessening of secrecy in trade processes which is the inevitable result of large-scale operations, the greater plenty of expert mechanics and machinists—all these factors tend to facilitate the establishment of industries whose difficulties are no more than temporary and transitional.

None the less the early stage of any new industry remains difficult. In every direction economists have come to recognize the immense force of custom and routine, even in countries where mobility and enterprise are at the highest. Departure from the habitual paths of industry brings unexpected problems and difficulties, false starts and initial losses, often a fruitless imitation of familiar processes before new and better ones are devised. All this is made more trying when a young competitor is trying to enter the market against a producer who is established and well equipped. The obstacles in the way of promising industries, though doubtless not so great as they were a century ago, remain great. The experiences of the United States during the last fifty years indicate that there remains in modern times at least the possibility of acquiring a self-sustaining industry by aid during the early stages.

The most striking cases in which success of this sort may be fairly alleged to have been secured are those of industries quite new —not existing at all at the time when the protective duty was

imposed. Where an industry is already started, or where there exist others closely related, further extension may be expected to take place, if the conditions are really favorable, without any legislative stimulus. If a silk manufacture already is established, the development of new branches of silk-making is not likely to meet with the special obstacles to young industries. And if, none the less, protection has been applied, and if thereafter a self-sustaining additional branch of the manufacture has grown up, the question at once presents itself, Would not the same growth have ensued in any case, and was the protection needed? Such skepticism, however, would hardly be justified if there had been no silk manufacture of any sort before the protection was applied. Precisely this outcome—the establishment of an industry entirely new—has appeared under our duties on silks during the last half-century. Without these duties it is doubtful whether there would have been any silk manufacture at all. And if in course of time that manufacture proved capable of supplying its products more cheaply than those imported, or at least as cheaply, the presumption would be strong that a new industry had been successfully nurtured. In the case of worsteds, also, there was virtually no industry at all before the Civil War; it has grown up under the barrier of protection. The same thing has happened with plate glass, and with many another commodity. In such cases, *if* eventual independence has been achieved, it may be fairly said that protection was applied to an industry really young.

Further: the length of time to be allowed for the experiment should not be too brief. Ten years are not enough; twenty years may be reasonably extended; thirty years are not necessarily unreasonable. What has already been said of the tenacity of old habits and the difficulties of new enterprises justifies the contention that a generation, more or less, may elapse before it is clear whether success has been really attained.

Nevertheless, in the end the final test must be applied—can the industry, after a period not unreasonably long, maintain itself unaided? The gist of the young-industry argument is that the community bears an initial charge for the sake of an eventual gain. That gain is secured only if the community is finally supplied with its goods as cheaply as the displaced foreigner could supply it. The young industry must mature so fully as to sustain itself. The final test would seem to be indifference to the continuance of the duty and willingness to meet foreign competition on even terms. If the industry continues to need protection indefinitely, and never succeeds in offering its products as cheaply as they could be got by importation, then its protection cannot be defended on this plea. There

may be good pleas on political or social or military grounds; or the stock arguments about home labor and home markets and the "acquisition" of valuable industries may be repeated; but there can be no pretense that a young industry has been nurtured with success.

152. Protection and the Formation of Capital[19]

BY ALVIN S. JOHNSON

The additions to the capital of a nation must come from the annual income. That the income of a nation will, at any given time, attain its maximum under freedom of trade is a proposition that admits of only rare exceptions. Does it not then follow that the capacity of a nation to accumulate capital will be greater under free trade than under protection? If all classes in society saved equal proportions of their incomes, it would follow of necessity that whatever tends to reduce the national income must reduce the annual addition to the fund of capital. But, in fact, the disposition to accumulate capital varies widely in the different classes that compose a nation; and it is the essence of protection to alter the proportions in which the social income is distributed. We cannot, therefore, accept without further examination the view that protection and the consequent reduction of the social income must necessarily retard the accumulation of capital.

Apart from purely individual differences in thrift, the tendency to save is affected by general economic and social conditions that enable us to divide the members of society into more or less distinct thrift classes. A man is not likely to save, if he knows of no investment attractive to him; he is not very likely to save if the road to the esteem of his fellows lies through expenditures for consumption.

The most attractive form of investment is the acquisition of tangible capital goods to be employed under one's own control. Such an investment gives visible evidences of economic efficiency. Accordingly those who are in a position to make such investments have the strongest incentive to save. These persons are entrepreneurs who have not yet fully equipped their businesses with capital. Them we may place in our highest thrift class. We may assign to a lower thrift class those who live upon salaries or returns from professional service. They have no ever-present means of investment; they are under the domination of rigid standards of consumption.

[19]Adapted from an article in the *Political Science Quarterly*, XXIII, 221–241. Copyright (1908).

They must, however, make provision for disability or superannuation. In a yet lower class I should place those who derive their incomes from rents, interest on mortgages and bonds, dividends on stocks,—the funded income class. They are in no peculiarly favorable situation to make new investments; they are subject to rigid standards of consumption; and they are under no compulsion to set aside a portion of their incomes for future needs. In the lowest class of all I place the great mass of workingmen, since they have the least favorable opportunity for investment and are subject to the most tyrannical standards of consumption.

When an industry reaches the acme of development, the position of the independent entrepreneur becomes assimilated to that of the recipient of funded income. Accordingly we are justified in drawing a distinction between the entrepreneur engaged in an industry which quickly attains its full development and those engaged in an industry of practically unlimited development. Thus we arrive at the conclusion that the richest and most enduring sources of new capital are the interest and profits of the manufacturing entrepreneur class.

A practical tariff system cannot bestow all its benefits upon a higher thrift class and impose all its burdens upon a lower one. Nevertheless it can hardly be denied that the chief benefits of modern protectionism have been bestowed upon those engaged in capitalistic enterprise. In the United States protection, down to the present day, has meant little but the diversion of income from all other classes in society to the capitalist manufacturer. The farmer and wage-earner have carried a net burden; the manufacturer alone has secured a net gain. Here a rapidly developing agriculture has been taxed for the benefit of rapidly developing manufactures. Although, under these conditions a high thrift class has been taxed, agriculture would quickly have attained a state of full development, and thus would have ceased to give large incentive to thrift. The impetus given to manufactures, which under modern conditions possess almost unlimited power of absorbing capital, must, of itself, have accelerated accumulation. It is worth noting that in the long run protection in a democratic state must favor the higher thrift classes at the expense of the lower. In every state protection is essentially a minority interest. The export industries can gain nothing from the policy; industries that supply a purely local demand also gain nothing. These two groups of industries outweigh the industries which would suffer under competition. The number of persons whose incomes are diminished by protection will greatly exceed the number of persons whose incomes are enlarged by it.

If it is true that the general tendency of modern protection has been to divert income from a lower to a higher thrift class we are justified in saying that protective duties have played a part in equiping modern society with the vast stock of capital goods which it now possesses. For proof of this we must have recourse to an analysis of the effects of protection upon capital formation in concrete instances. Let us suppose that in a country which formerly imported its silk a heavy duty is levied with the object of creating a silk-manufacturing industry at home. Men, intending to invest otherwise, are induced to go into the silk business. At the beginning the capital goods with which the new industry is equipped represent no net addition to the productive wealth of the country. But a new industry is naturally speculative in character; and the more conservative entrepreneurs are slow to enter it. In the nature of the case the industry will be undersupplied with capital. This means that capital will be more than ordinarily productive in the industry; it means further that entrepreneurs will be steadily endeavoring to secure more capital to expand their operations. Under these circumstances it is inevitable that a large proportion of the profits created by the industry will be reinvested in it. Here then we have a net addition to the productive wealth of the country.

We arrive at practically the same result if we select a commodity entering chiefly into the consumption of the wage-earners. A large proportion of the wage-earning class saves practically nothing, whether wages are high or low. Standards of consumption tend to absorb any surplus income that may appear. A duty borne by the wage-earning class places little check upon accumulation. Thus the main effect of the duty is to divert income from a lower thrift class to a higher one, and hence to give an impetus to the formation of capital.

In answer to this line of argument it is alleged that a tariff constructed in such a way as to equalize costs of production at home and abroad would not permit the surplus profits out of which capital is built. This is true. But one may safely challenge all the economists in the world to point to one instance of a "scientific" tariff. In the nature of things there can be no such tariff. What manufacturers' association would conduct political campaigns, roll logs, and otherwise exert itself for the mere privilege of being placed on an equality with the foreigner? What would be the object in establishing a new industry if it were to offer only profits that might be secured from industries already existing?

It is true that if the protected industry operates under great natural disadvantages, as in the classical case of producing wine in

Scotland, the burden to the consumer will be so much greater than the net gain of the producer that the net effect upon accumulation will be unfavorable. But it is not the practice of entrepreneurs to demand, nor of statesmen to grant, protection for industries that labor under extraordinary disadvantages. Rather the selection of industries for protection tends to be such that a greater part of the tribute exacted from the consumer is bestowed upon the producer in the form of profit instead of being wasted in the insane struggle with refractory natural conditions.

What is the test by which it can be determined whether the protective system shall be abandoned? By the academic protectionists, duties should be abolished when the protected industries are in a position to meet foreign competition. According to the theory here put forth, they should not be removed until the protected industries cease to develop rapidly. Then the duty should be removed whether the industry can meet foreign competition or not.

153. The Economics of Protection

The economic fallacy of free trade lies, not in its logic, but in its assumptions. The latter are part and parcel of the static and individualistic system of thought of the later eighteenth century which made Nature the hero in the piece and assigned to the state the rôle of villain. At the basis of the argument for free trade are the two quite dissimilar but complementary propositions that men are guided by a supreme natural pre-wisdom to choose the best lines of production, and that the process of production consists in juggling together a certain number of productive units from each of three great hoppers, called Land, Labor, and Capital. To make clear the dependence of the theory upon these underlying assumptions, let us strip it of its verbiage and reduce it to its simplest terms.

It may best be stated as a problem: Given a definite amount of land, of capital, and of labor; in what particular permutations shall the three be put up in such a way as to secure the largest amount of consumptive goods? Obviously, since labor and capital are the human factors, they must be economized; their supplies must be made to "go as far as possible." This can be done by making Nature shoulder the largest possible amount of the actual work of production. This last can be achieved by having each article produced in the place best fitted for its production, and letting the peoples of the various places exchange their surpluses. In other words, the best possible adjustment of the mobile factors of labor and capital must be made to the immobile factor, land. To illustrate, an attempt

should not be made to produce both watches and oranges in Connecticut or Florida. With the available but limited amounts of labor and capital a larger quantity, both of watches and of oranges, can be produced, if Connecticut devotes itself to the production of watches and Florida to the cultivation of oranges, than if each tries to produce for itself both of these commodities. If, then, the government does not interpose artificial restrictions, a scheme of profits and losses will secure the localization of industries at places best fitted for them. Consequently a larger amount of consumable goods will be produced under free trade than under a restrictive system. The theory might properly be called the law of the economic utilization of labor and capital.

In view of this statement the weakness in the assumptions of the argument will quickly be noted. The first is the preconception of the rationality of human judgment in the localization of industry. It imputes omniscience to that judgment; for the decision has to be made before the industry is located; and the evidence to guide that judgment, in profits and losses, is not available until much later. At best, rational judgment can locate industries at points where Nature's contribution can be most fully utilized only after a protracted and costly period of experimentation. It is doubtful, too, whether the owners of natural resources, who have had little experience with the larger world of affairs, can determine just what industries are adapted to a given locality. If they are left alone, custom is likely to ripen into the inertia that breeds stagnation. Further, because of the intricacy of the industrial cycle and the imperfection and lack of availability of business barometers, it is impossible for the average business man to look into the future and see all the exigencies which converge to make a business a success or a failure. No one expert is sufficient for this task. Technical experts who know all the potential productive capacities of a particular place need to be assisted by business experts who are able to forecast demand and general business conditions. A group of them should, by the use of scientific methods, determine the industrial needs that are most pressing and the localities best adapted to the production of articles to satisfy these needs. Encouragement should be given, if conditions are favorable, to the prosecution of various businesses. Towards this end the protective tariff should prove a most useful device.

The second glaring error in the assumptions is a conception of potential resources in fixed terms. The elements out of which useful goods are made are most valuable. Our natural resources are what they are, because our industrial system is what it is. Change the system, and the catalogue of our resources would be materially

altered. In a sense China's wealth is far greater than Japan's, yet it lacks a certain almost indefinable dynamic quality. Labor, particularly, defies expression in rigid calculable terms. Man is possessed of many potential gifts. The majority of these always remain latent; some two or three are developed. Take a boy from a rural environment, where possibilities are narrowly circumscribed, to a large city and watch unsuspected talents develop. Physically speaking, the amount of land, capital, and labor may remain the same. Each as it is, as a static thing, may be best utilized under free trade. But the important question is, Does society under free trade develop the most important latent capacities? Does free trade permit society to utilize its full capacity for development? The worst that is said about protection is that for a time it imposes higher prices upon consumers' goods. Admit the charge. Its cost is far more than offset by its transformation of society into a more complex and integrated whole, which offers a larger range of opportunity to the individual, and surrounds him with an atmosphere surcharged with a spirit that brings out his latent powers. Again, the fallacy of free trade is that it overlooks the possibility of developing new capacities for productive work.

The third glaring error is, in a sense, of a kind with the second. It is the assumption of a fixed quantity of each of the productive factors. Our own experience has demonstrated quite clearly the possibility of greatly increasing two of these factors, labor and capital, and in a way increasing the third, land, by the creation of an industrial system that allows a fuller utilization of natural resources. In the argument above, labor was the important factor; here capital takes the first place. The importance of a definite increase in the volume of capital is not clearly enough appreciated. Land, of course, physically speaking, is fixed in quantity. If a nation has reached the point of diminishing returns, an increase in numbers is attended by a fall in the standard of living. Material progress, then, is associated with an increase in the quantity of capital. Protection, as Professor Johnson has shown in another reading, increases for protected businesses the margins between costs and selling prices. A large part of the additional profits realized is turned back into the business in the form of reinvested capital. The growth of an industry is closely dependent upon its control by a permanent management who have vast pecuniary stakes in its success. This is possible only under a system which permits expansion through reinvestment of profits. This protection makes possible. The alternative, involving the investment of outside capital in the business, can be taken only at the cost of a sacrifice of part of the

ownership, and, consequently, of the control of the enterprise. Since, therefore, material progress is dependent upon the addition of new increments to the available supply of capital, its debt to protection is a large one.

Since protection increases the amount of invested capital, it follows that it increases the incomes of the mass of individuals. The argument is perhaps already evident, but let us state it, at least for the most important share in distribution, that of labor. As political economists agree, the wages of labor depend upon the marginal productivity of the laborer. Capital increases that productivity, and consequently raises wages. To illustrate, let us take two countries, Denland and Norland. They possess the same number of laborers, similar natural resources, the same technical system, and the same amount of accumulated capital. It is evident that under our principle, the real wages will be the same in the two countries. If, however, Denland differs from Norland only in having a larger amount of accumulated capital, then the marginal laborer in that country is working with improved equipment, and will turn out a larger product than the marginal laborer in Norland. Accordingly wages will be higher. Likewise, an increase in accumulated capital in Norland itself improves the facilities with which the marginal laborer works, and consequently increases his product and his wage. Under protection, therefore, wages will be higher than under free trade.

Protection, as a system, has seemed to the economists to lack a fundamental basis only because they have insisted upon judging it on the basis of the static and individualistic assumptions underlying their own creeds. We must remember that free trade is a theory of the proper utilization of definitely limited factors of production. Protection is a theory of the development out of crude human stuff and natural resources of the largest possible productive funds and of the best conservation of these funds. It goes back of the factors of production, the starting-point of the free trader, and seeks to increase their size and intensify their force. When development stops, and society becomes static, then it will be to our advantage to adopt the free-trade theory of maximum utilization. But so long as industrial society possesses capacity for growth, we can best profit by clinging to the use of the developmental theory of protection.

154. Protection and the National Defense

Until a few months ago it was conventional to insist that even the partial free trade which has been attained in the Western world has caused the war-drum to throb no longer. The argument was rational, and since it was assumed, for some unknown reason, that man's

actions were rational, it was quite convincing. It ran something like this: The actions of nations, like those of individuals, are premised upon a desire to realize the highest measure of material welfare. States are, therefore, likely to do those things which lead to an increase in welfare, and to leave undone those things which seriously threaten it. Now commerce ties industrial countries together with bonds of common pecuniary interests. So close are these and so intricate is the scheme of pecuniary interests which is created, that anything which breaks the commercial nexus seriously threatens the profits and material welfare of capitalists and laborers alike in many industries in many countries. Because these relations are not of dependence, but rather of interdependence, nations cannot afford to fight. The antipathy to fighting is strengthened by the prominence of commercial opinion in determining national policy. On the contrary the gains from war are illusory. Increases in territory are nominal rather than real. They are attended by no great increase in material welfare. Indemnities do not repay their cost of collection. Loot is a breach of the ethics of warfare. Consequently the partial free trade of the present is an excellent investment in peace insurance.

Unfortunately, however, the events of the last few months have proved that the wisdom of nations does not reside in the rational calculations of ledgers. The pecuniary fact has as yet completely conquered neither the statesman nor the man in the street sufficiently to make economics the basis of national action. Instinct and impulse are still associated with rationality in political judgment. Race and creed and politics are still matters of concern. The pocketbook has not mastered hate, and the bank-ledger has not as yet won the victory over jealousy. Accordingly, the European conflict teaches quite clearly that, whatever may be rational, there is more than a possibility that a nation may find itself suddenly at war.

The supreme national duty, then, is to be ready for war. In this preparation the tariff policy is a matter of the greatest moment. Clearly, whatever may be our disadvantage, it will not do to depend upon a foreign source of supply for munitions of war. A navy alone may stand between us and that source. Should the fleet be defeated, there would be no chance for us to save ourselves. But only a moment's reflection is necessary to show that, even if we manufacture our own munitions, it is equally necessary that we produce the raw materials out of which they are to be made. The cutting off of a single essential raw material would prove fatal. To munitions must be added all that long list of articles which, under modern conditions, are essential to the successful conduct of the war. Sol-

diers, if they are expected to win battles, must be properly fed, clothed, and housed. We can depend upon the caprice of import for no article essential to their personal efficiency. We must also have many auxiliary articles and devices upon which the success of the force as a fighting unit depends. These include horses, automobiles, gasoline, copper, steel, drugs, chemicals, and innumerable other things. Our transportation system, too, must be prepared to meet military exigencies. In short, war practically involves, as it is carried on under the modern machine process, making the whole industrial system function toward military efficiency. War comes unexpectedly. An industry, on the contrary, cannot be quickly started. Time and experimentation are necessary to make it fit into a complicated industrial scheme. Consequently industries which supply every essential article required in war must be built up to high efficiency in time of peace. At best we can expect only a few industries to be built up in just the right way in response to the capricious demand of pecuniary profit. A use, and a very extensive use of protection is, therefore, necessary, to prepare a nation for the acute stress that may mean life or death.

F. THE INFLUENCE OF THE TARIFF ON WAGES

155. High Wages an Obstacle to Manufacture[20]

BY DANIEL WEBSTER

The present price of iron at Stockholm is not far from $40.00 at the mines. Freight, insurance, and duty make the price of Swedish iron in our market about $83.00. We perceive by this that the cost of the iron is doubled in reaching us from the mine in which it is produced. Why, then, cannot iron be manufactured at home? Our ore is as good, or better. Nothing could be more sure of a constant sale. It is an article of absolute permanent necessity.

Sir, the true explanation seems to me to lie in the present prices of labor. I think it would cost us precisely that which we could worst afford, that is, great labor. The principal ingredient in the cost of bar iron is labor. Of manual labor, no nation has more than a certain quantity, nor can it be increased at will. As to some operations, indeed, its place may be supplied by machinery; but there are other services which machinery cannot perform for it, and which it must perform for itself. A most important question for every nation is how it can best apply that quantity of labor which it is able to

[20]Adapted from a speech delivered in the House of Representatives, April 1 and 2, 1824.

perform. Labor is the great producer of wealth; it moves all other causes. If we call machinery to its aid, it is still employed, not only in using the machinery, but in making it. Now, with respect to the quantity of labor different nations are differently circumstanced. Some need, more than anything, work for hands; others require hands for work; and if we ourselves are not absolutely in the latter class, we are still, most fortunately, very near it. I cannot find that we have idle hands. The price of labor is a conclusive and unanswerable refutation of that idea; it is known to be higher with us than in any civilized state, and this is the greatest of all proofs of general happiness. Labor in this country is independent and proud. It has not to ask the patronage of capital, but capital solicits the aid of labor. This is the general truth in regard to the conditions of our whole population. The mere capacity to labor in common agricultural employments gives to our young men the assurance of independence. We have been asked whether we will allow the serfs of Russia and Sweden the benefit of making iron for us? Those same serfs, sir, do not make more than seven cents a day, and they work in these mines for that compensation because they are serfs. Have we any labor in this country that cannot be better employed than in a business which does not yield the laborer more than seven cents a day? This, it appears to me is the true question for our consideration. There is no reason for saying that we will work iron because we have the mountains that contain the ore. We might for the same reason dig among our rocks for the scattered grains of gold and silver which might be found there.

156. Protection and High Wages[21]

Not only are wages in the United States twice or three times the averages of Europe and from ten to twenty times those of Asiatic countries, but our hours of labor are the fewest in the world.

So far as can be learned from a rough computation of the averages in the United States, the American laborer now gets fully $2.50 per day in a week of 54 hours' work. If we should take the average of all men, women, and children wage-earners in this country, it would be well beyond the dollar-a-day line.

The question then follows: Is not the cost of living proportionally more here than abroad? There is very little difference, the same things considered, but the American lives much better and his needs are far in excess of the foreigner's because of his education, his intelligence, and his tastes. The American two-dollar-a-day man

[21]Adapted from "Wages and Causes," in the *American Economist*, XXVIII, 175 (1901).

not only gets a better living for himself and his family than the European dollar-a-day man, but the American has another dollar for comforts, conveniences, luxuries, and pleasures unknown to the European laborer.

There must be some reason for this state of affairs, and this reason is the American system of protection. That system tends to make us do practically all our own work, keeping our money at home and in constant circulation, creating and sustaining a purchasing ability that demands more and more production, the very producers becoming greater consumers of each other's products.

We are not an agricultural people. We are not a manufacturing people. We are not a mining people. Nor are we fishermen or foresters. We are productive people, and our productions include every need of man and nearly every luxury. Our small surplus is readily sold abroad, and to a greater extent than our purchases.

This is the American system of protection. This is the reason for American wages and the cause of American habits and ways of living. Our diversification of production is the greatest economic leaven of our almost immeasurable loaf of prosperity. There is only one thing that will permanently lessen it—a reduction of wages made necessary by a repeal of one or more tariff schedules bringing us into competition with the dollar-a-day labor of Europe and the dime-a-day labor of Asia. Nor does the whole chain of interdependent industries have to be broken. The breaking of a single link will work irreparable disaster. We must preserve intact our splendid American policy of protection and its attendant high wages and universal prosperity.

157. The Effect of Industrial Changes on Wages[22]

BY ALVIN S. JOHNSON

A policy that draws labor from the fields that are of greater natural productiveness to fields of lower natural productiveness tends to reduce wages.

In any country wages are determined by the marginal productivity of labor. We will represent the various opportunities of employment that a country like the United States affords by the symbols, A, B, C, and D. A may stand for a group of industries in which we have exceptional advantages over foreign countries. B stands for a group of industries in which our advantages are less, C one in which they are still less, and D the group of industries in which

[22]Adapted from *Introduction to Economics,* 359–361. Copyright by D. C. Heath & Co. (1909).

they are least of all. When our population is so small that all our labor can be engaged in the group represented by A, wages will be at their maximum. When our population increases so that some of the labor will have to be set to work in group B, the wages of all labor must decline to the level of the productivity in that group. We will suppose that population has increased up to a point where the opportunities represented by A and B are fairly well manned, and wages are determined by the productivity of labor in B.

With wages thus determined, it is clear that no employer, without governmental aid, can afford to hire labor to exploit the opportunities represented by C and D. This would necessitate paying labor in C and D as much as it produces in B, and that by hypothesis is more than it produces in C and D.

Now let us suppose that a political party is in power which holds the belief that we should produce everything that we consume, that is, that the opportunities represented by C and D should be exploited as well as those represented by A and B. Labor may be drawn away from A and B. This involves the necessity of compensating entrepreneurs in some way for the disadvantages under which they will operate in C and D. Either wages must be reduced in A and B, or some form of subsidy must be granted to C and D.

The commodities that the industries composing C and D will produce have been hitherto, we assume, obtained from abroad through exchange for commodities produced by A and B. The government now renders this difficult by placing high duties upon the former class of commodities. This means that producers in the groups A and B—both employers and workmen—must pay higher prices for what they buy. They do not receive higher prices for what they sell; in fact, they receive lower prices, as this, we have seen, is the effect of protective duties upon export industries. It appears, then, that part of the disadvantage of producers in C and D is removed by reducing wages in A and B.

After the duty has gone into effect and the prices of commodities that can be produced by C and D have risen sufficiently, enterprisers will be able to hire labor at the wages prevailing in A and B, and establish industries in C and D. So far as the remaining laborers in A and B buy the products of C and D, the difference between the price which they pay for those products and the price that they would pay if they were permitted to import those products duty-free is a tax paid not to the government, but to the producers in C and D, to enable the latter to remain in business. It is an uncompensated deduction from the natural earnings of the

laborers in A and B. Their wages have been reduced. Nor are the workers in C and D paid as much, estimated in purchasing power, as they would have received if they had been allowed to remain in A and B under the earlier conditions. The net effect of the imposition of the duty has been to saddle the self-supporting industries, A and B, with the support of the pauper industries, C and D. Yet the inventors of this policy have the effrontery to tell laborers in A and B that this policy is the bulwark of their high rate of wages!

The principles involved in the illustration may be stated in the following general terms: Wages in any country will be at the highest point when all the labor of that country is concentrated in the industries in which its relative advantages over other countries are greatest. If there are no protective duties whatsoever, employers will, as a rule, seek out the industries in which their country has the greatest relative advantages. Protective duties enable other industries to exist, but only through taxing the more productive industries for their support. Protection as a permanent policy means a slight reduction of money wages, and a greater reduction in wages estimated in purchasing power.

G. THE HISTORICAL SETTING OF THE CURRENT TARIFF PROBLEM

158. A Half-Century of Tariff History[23]

BY HARRISON S. SMALLEY

A study of the historical setting of the current tariff problem need not take us back beyond the period of the Civil War. True, the tariff had played a part in politics from the beginning, a part out of all proportion to its real importance. For the first quarter-century of our national existence the idea of protection had found but precarious foothold in our tariff schedules. However, the natural protection furnished by the Napoleonic wars had resulted in the establishment of many manufacturing industries, which had proceeded to make their presence known immediately the war was over. The result had been a series of bills granting relatively high duties from 1819 and 1824 until 1846. However, the South had opposed, and the high level of duties had, even in those days, been subject to many vicissitudes. From 1846 until the Civil War the dominant

[23]Adapted from "A Short Sketch of American Tariff History," in *Readings in Political Economy.* Privately published (1911).

theory underlying tariff policy had been that of revenue, but protective features had not been entirely abandoned. However, as we have said, the present era properly begins with the Civil War.[24]

The Morrill law, passed in 1861, raised the level of duties quite substantially. Modifications in duties were constantly being made throughout the conflict, and in the end the level of duties was very greatly raised.

Although the idea of protection was quite prominent, the primary reason for the increase was the need of revenue. The government had adopted a most elaborate policy of internal taxation, including taxes on manufactured goods. It seemed just, therefore, since American producers were burdened with excise duties greatly increasing their costs of production, to protect them by a proportionally higher tariff duty. In fact, had this not been done, the government's attempt to collect revenue in many cases would have failed. Accordingly many "compensating duties" were added to the already high rates. This level was still further raised through the efforts of designing congressmen, who found it easy to secure duties for favored industries under the pretense of raising revenue.

During the war no one imagined that the excessive duties would be permanent. But the war passed, and tariffs have come and gone, but still we have a general level of duties about like that which prevailed at the end of the war. Soon after hostilities ceased Congress began to repeal the special internal revenue duties. But the compensating duties, made necessary by these, were not taken off. So today we are still paying many special duties designed to compensate manufacturers for duties which have not been levied upon them for forty years.

Several reasons may be assigned for the failure of Congress to reduce the war tariff after the close of the conflict. Its attention was largely drawn to the problems of reconstruction in comparison with which the tariff was a minor issue. Again, Southern opinion, which alone was favorable to free trade, was not strong. Furthermore, the tariff was in a state of great confusion, and its intelligent revision would have required a great deal of time and care. Still another factor of a political character was probably of considerable consequence. The Republican party had been organized as a protest against the spread of slavery. With the successful termination of the Civil War its object was accomplished. Hence it was left without a special reason for its continued existence. If the party was to remain a force in politics it must have a positive platform

[24]Mr. Smalley is not responsible for the opening paragraph.

on which to stand. So the Republican leaders seized upon protection and made it one of their leading policies. But most important of all, the protected interests exerted in the congressional lobbies a powerful influence to prevent a reduction of duties. Indeed, from that time to this the pressure brought by protected producers upon Congress and congressmen has been the most serious obstacle in the way of tariff reform. For these reasons the war tariff level was maintained. Within a few years the popular mind became accustomed to high protection and more or less adjusted to it, and the lobbyists and representatives of protected interests found it relatively easy to secure what they wanted from Congress.

Readjustments were, of course, made; but they were more numerous than important. In 1870 under cover of certain reductions the duties were raised on a large number of articles. In 1872, because of surplus revenue, it was thought expedient to make a horizontal reduction of 10 per cent. Putting coffee and tea on the free list evidenced the determination of Congress to lower revenue rather than protective duties. In 1875 the tariff was restored to its former level. Because of a popular demand and another excess of revenue the schedules were again revised in 1883. The effort to satisfy the popular demand and at the same time to save the principle aroused considerable protest. In 1888 Cleveland came out strongly in favor of tariff reduction.

Viewing their victory at this election as a vindication of their policy, the Republicans proceeded to adopt a new tariff, the McKinley Act, which surpassed in altitude all previous achievements. How well the demand for reducing revenue without sacrificing favors was met is evidenced by their action in removing the duty on sugar, averaging 2 cents a pound, and substituting for it a bounty of 2 cents a pound on all sugar produced in this country.

The popular protest was immediate. In the election of 1890 the Democrats captured the House, and won the presidency and the Senate two years later. The panic of 1893, which came while the McKinley Act was a law, and the troubles over the coinage of silver, for a time delayed revision. They also served to destroy party unity. A bill was passed by the House embodying substantial reductions. This, however, was radically amended by the Senate, the Republicans and a few bolting Democrats being responsible for the changes. The bill as passed embodied a series of duties lower than those of the McKinley bill, but substantially higher than those of the tariff of 1883. President Cleveland was so displeased that he allowed the bill to become a law without his signature.

The act failed to relieve the depression following the panic which had been caused very largely by the silver legislation of the Republicans. Perhaps no tariff bill could have mended matters. Certainly there was no threat to business in the Wilson-Gorman bill. Yet people began to blame the act for the failure of business to recover from the panic. The opportune reappearance of the silver question offered the Democrats a way of sidetracking the tariff. So, when Bryan in the national convention of 1896 made his "cross of gold" speech, he was hailed as the new leader of the party, and the free coinage of silver was declared to be the paramount issue.

Nevertheless the tariff was not by any means lost from view. The Republicans, victorious in the election of 1896, felt authorized to raise the tariff once more. In consequence they passed the Dingley law of 1897, which was a revision upward, restoring the general level of the McKinley Act.

By 1900 the Republicans had formulated an argument which proved most effective. It was: "From 1894 to 1897 we had a Democratic tariff and hard times; from 1897 to 1900 we have had a Republican tariff and prosperity." Some members of the party went so far as to attribute the panic of 1893 to the Wilson-Gorman bill which was not passed until more than a year later. It made no difference that the Democratic tariff had been a high protective measure. Nor did it make any difference that the hard times and prosperity were due to a very large number of other causes. *Post hoc* is *propter hoc*. The Democrats lacked courage to meet the issue, and attempted to use Imperialism as a shield.

By 1904 sentiment favorable to revision had again begun to appear. The rise of the trusts, the revival of the old fear of monopoly, and the knowledge that these combinations had in many cases been able to charge high prices because they were protected from foreign competition gave impetus to the movement for tariff reform. This was increased by the growing concern over the increase in the cost of living. By 1908 the sentiment was so strong that the Republicans promised that, if successful in the election, they would revise the tariff. The courage of the Democrats had returned and they demanded downward revision both in 1904 and in 1908.

The result of the Republican victory was a special session of Congress in 1909, at which the Payne-Aldrich Act was passed. This act decreased many duties but raised many others. The general level of the Dingley bill of 1897 was maintained. It permitted no compromising of the protective principle. As yet it is not evident that

it contained changes tending either to curb monopolies or to reduce the cost of living.

159. Recent Tariff History

The protest against the Payne-Aldrich bill was immediate and outspoken. At the biennial election in 1910 the Democrats won control of the House by a substantial majority. Looking ahead to the presidential election of 1912, and sparring for political advantage, the majority party in the House passed several bills amending parts of the tariff act. These lowered duties, particularly on wool and products used on the farm. A personal revolt against President Taft within his party added enough votes to the Democratic minority to secure the passage of these bills through the Senate. But, as was to be expected, they were vetoed by the President.

In 1912 the tariff again became one of the main issues in the election. The sentiment for revision was based upon a number of quite different considerations. The opposition to monopoly and a belief that by legislation the government could furnish relief from the high cost of living were perhaps dominant. A belief that the tariff was conferring "special favors" upon privileged individuals, and hence was contrary to the spirit of government, was very widespread. In addition there was a substantial demand from quite a considerable contingency of manufacturers and commercial men favorable to revision. This demand was to a considerable extent due to the changed industrial position of the country. The era of prosperity through which we had passed had led to an enlargement of many plants to a point where they could supply much more than the domestic demand for their commodities. Since these businesses were in the stage of diminishing costs, they were anxious to find wider markets. Realizing that foreign trade is reciprocal, the manufacturers involved were aiming to create a domestic demand for additional foreign products in order that foreigners might have claims with which to buy American goods. Consequently some manufacturers who, in 1897, when the fight was for the domestic market, favored high duties, in 1912 were found demanding lower duties. This sentiment was strengthened by a feeling that in some branches protection was no longer necessary. This demand from manufacturers is significant because of its evidence of a change in America's position in international trade.

Although division in Republican ranks was instrumental in giving Wilson an unprecedented vote in the electoral college, and in securing for the Democrats control of the Senate and House, there is little

doubt that the country at large stood committed to a downward revision of the tariff. This was undertaken at a special session of Congress and culminated in the act of October 3, 1913. The making of no tariff bill in two generations was less influenced by the representatives of special interests sent to Washington. The bill was not extreme, but represented a genuine attempt to reduce duties. Its most significant changes were in putting wool on the free list immediately and sugar at the end of two and a half years. The former was a result of the popular agitation against the notorious Schedule K of the Payne-Aldrich Act. With free wool went the removal of the specific compensatory duties on woolens, as well as the specific duties on cottons and silks. Iron ore, pig iron, steel rails, and agricultural implements were all put on the free list. The act substituted many ad valorem for specific duties. But, since the reductions were in many cases upon articles which we habitually export, they were nominal rather than real. The reduction of duties on agricultural products is a case in point.

In general the tariff seems neither to have justified its friends nor its enemies. It has not reduced prices; nor has it led to a closing of industries and general unemployment. Its effects, if effects it has had, have been so merged with those of numerous other active factors, particularly those of the European war, that they cannot be isolated. It was not expected that the act would result in any immediate extension of foreign markets. Custom and habit are too strong, and the spirit of business enterprise a little too slow for that. Whatever effect it may have had in sending American goods abroad has lost its identity in the general stream of causes affecting trade which have come in the train of the European struggle. The stalwart Republicans are attributing current bad industrial conditions to tariff tinkering. The financial papers, however, are not demanding upward revision. Their demand just now is for business to be let alone. At present there seems to be no strong sentiment in favor of upward revision. It is, perhaps, premature to express the hope that the tariff question is settled, and is a matter of history. The old sectional clash, intensified by an industrial struggle between the interests which demand foreign markets and the industries which still wish domestic protection, is too strong for that. The questions of the distribution of wealth between classes will also serve to keep it alive. Yet, since we are coming to grapple with the more vital problems of a full-grown industrial system, it seems safe to say it will never again have the importance which it has had in the past.

160. What a Tariff Bill Is Like[25]

SECTION I.

Schedule A.—Chemicals, Oils and Paints.

1. Acids: Boracic acid, ¾ cent per pond; citric acid, 5 cents per pound; formic acid, 1½ cents per pound; gallic acid, 6 cents per pound; lactic acid, 1½ cents per pound; oxalic acid, 1½ cents per pound; pyrogallic acid, 12 cents per pound; salicylic acid, 2½ cents per pound; tannic acid and tannin, 5 cents per pound; tartaric acid, 3½ cents per pound; all other acids and acid anhydrides not specially provided for in this section, 15 per centum ad valorem.

5. Alkalies, alkaloids, and all chemical and medicinal compounds, preparations, mixtures and salts, and combinations thereof not specially provided for in this section, 15 per centum ad valorem.

19. Chloroform, 2 cents per pound.

48. Perfumery, including cologne and other toilet waters, articles of perfumery, whether in sachets or otherwise, and all preparations used as applications to the hair, mouth, teeth, or skin, such as cosmetics, dentfrices, including tooth soaps, paste, including theatrical grease paints, and pastes, pomades, powders and other toilet preparations, all the foregoing, if containing alcohol, 40 cents per pound and 60 per centum ad valorem; if not containing alcohol, 60 per centum ad valorem; floral or flower water containing no alcohol, not specially provided for in this section, 20 per centum ad valorem.

Schedule B.—Earth, Earthenware and Glassware.

74. Plaster rock or gypsum, crude, ground or calcined, pearl hardening for paper makers' use; white, non-staining Portland cement, Keene's cement or other cement of which gypsum is the component material of chief value, and all other cements not specially provided for in this section, 10 per centum ad valorem.

91. Spectacles, eyeglasses and goggles, and frames for the same, or parts thereof, finished or unfinished, 35 per centum ad valorem.

99. Freestone, granite, sandstone, limestone, lava, and all other stone suitable for use as monumental or building stone, except marble, breccia, and onyx, not specially provided for in this section, hewn, dressed, or polished, or otherwise manufactured, 25 per

[25]Adapted from *The Tariff Act of October 3, 1913*, 1–93. The reproduction of the act in its entirety would require about one hundred pages of the size of this one.

centum ad valorem; unmanufactured, or not dressed, hewn, or polished, 3 cents per cubic foot.

100. Grindstones, finished or unfinished, $1.50 per ton.

Schedule C.—Metals and Manufactures of.

102.—Chrome or chromium metal, ferrochrome or ferrochromium, ferromolybdenum, ferrophosphorus, ferrotitanium, ferrotungsten, ferrovanadium, molybdenum, titanium, tantalum, tungsten or wolfram metal, and ferrosilicon, and other alloys used in the manufacture of steel, not specially provided for in this section, 15 per centum ad valorem.

110. Steel bars, and tapered or beveled bars; mill shafting; pressed, sheared, or stamped shapes, not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gun-barrel molds not in bars; all descriptions and shapes of dry sand, loam, or iron molded steel castings, sheets, and plates; all the foregoing, if made by the Bessemer, Siemens-Martin, open-hearth, or similar processes, not containing alloys, such as nickel, cobalt, vanadium, chromium, tungsten or wolfram, molybdenum, titanium, iridium, uranium, tantalum, boron, and similar alloys, 8 per centum ad valorum; steel ingots, cogged ingots, blooms and slabs, die blocks or blanks; billets and bars and tapered or beveled bars; pressed, sheared, or stamped shapes not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gun-barrel molds not in bars; alloys used as substitutes for steel in the manufacture of tools; all descriptions and shapes of dry sand, loam, or iron molded castings, sheets, and plates; rolled wire rods in coils or bars not smaller than twenty one-hundredths of one inch in diameter, and steel not specially provided for in this section, all the foregoing when made by the crucible, electric, or cementation process, either with or without alloys, and finished by rolling, hammering, or otherwise, and all steels by whatever process made, containing alloys such as nickel, cobalt, vanadium, chromium, tungsten, wolfram, molybdenum, titanium, iridium, uranium, tantalum, boron, and similar alloys, 15 per centum ad valorem.

Schedule E.—Sugar, Molasses, and Manufactures of.

177. Sugars, tank bottoms, sirups of cane juice, melada, concentrated melada, concrete and concentrated molasses, testing by the polariscope not above seventy-five degrees, seventy-one one-hundredths of 1 per cent per pound, and for every additional degree shown by the polariscopic test, twenty-six one-thousandths of

1 cent per pound additional, and fractions of a degree in proportion; molasses testing not above forty degrees, 15 per centum ad valorem; testing above forty degrees and not above fifty-six degrees, 2¼ cents per gallon; testing above fifty-six degrees, 4½ cents per gallon; sugar drainings and sugar sweepings shall be subject to duty as molasses or sugar, as the case may be, according to polariscopic test: *Provided,* That the duties imposed in this paragraph shall be effective on and after the first day of March, nineteen hundred and fourteen, until which date the rates of duty provided by paragraph two hundred and sixteen of the tariff Act approved August fifth, nineteen hundred and nine, shall remain in force: *Provided, however,* That so much of paragraph two hundred and sixteen of an Act to provide revenue, equalize duties, and encourage the industries of the United States, and for other purposes, approved August fifth, nineteen hundred and nine, as relates to the color test denominated as Number Sixteen Dutch standard in color, shall be and is hereby repealed: *Provided further,* That on and after the first day of May, nineteen hundred and sixteen, the articles hereinbefore enumerated in this paragraph shall be admitted free of duty.

Schedule G.—Agricultural Products and Provisions.

188. Barley, 15 cents per bushel of forty-eight pounds.

193. Rice, cleaned, 1 cent per pound; uncleaned rice, or rice free of the outer hull and still having the inner cuticle on, ⅝ of 1 cent per pound.

195. Butter and butter substitutes, 2½ cents per pound.

196. Cheese and substitutes therefor, 20 per centum ad valorem.

205. Hay, $2 per ton.

206. Honey, 10 cents per gallon.

213. Straw, 50 cents per ton.

214. Teazels, 15 per centum ad valorem.

Schedule N.—Sundries.

341. Dice, dominoes, draughts, chessmen, chess balls, and billiard, pool, bagatelle balls, and poker chips, of ivory, bone, or other materials, 50 per centum ad valorem.

347. Feathers and downs, on the skin or otherwise, crude or not dressed, colored, or otherwise advanced or manufactured in any manner, not specially provided for in this section, 20 per centum ad valorem; when dressed, colored, or otherwise advanced or manufactured in any manner, and not suitable for use as millinery ornaments, including quilts of down and manufactures of down, 40 per

centum ad valorem; artificial or ornamental feathers suitable for use as millinery ornaments, artificial and ornamental fruits, grain's leaves, flowers, and stems or parts thereof, of whatever material composed, not specially provided for in this section, 60 per centum ad valorem; boas, boutonnieres, wreaths, and all articles not specially provided for in this section, composed wholly or in chief value of any of the feathers, flowers, leaves, or other material herein mentioned, 60 per centum ad valorem: *Provided,* That the importation of aigrettes, egret plumes or so-called osprey plumes, and the feathers, quills, heads, wings, tails, skins, or parts of skins, of wild birds either raw or manufactured, and not for scientific or educational purposes, is hereby prohibited; but this provision shall not apply to the feathers or plumes of ostriches, or to the feathers or plumes of domestic fowls of any kind.

Free List.

387. Acids: Acetic or pyroligneous, arsenic or arsenious, carbolic, chromic, fluoric, hydrofluoric, hydrochloric or muriatic, nitric, phosphoric, phthalic, prussic, silicic, sulphuric or oil of vitriol, and valerianic.

389. Acorns, raw, dried or undried, but unground.

391. Agricultural implements: Plows, tooth and disk harrows, headers, harvesters, reapers, agricultural drills and planters, mowers, horserakes, cultivators, thrashing machines, cotton gins, machinery for use in the manufacture of sugar, wagons and carts, and all other agricultural implements of any kind and description, whether specifically mentioned herein or not, whether in whole or in parts, including repair parts.

407. Ashes, wood and lye of, and beet-root ashes.

457. Coffee.

512. Ice.

513. India rubber, crude, and milk of, and scrap or refuse india rubber, fit only for remanufacture.

586. Rags, not otherwise specially provided for in this section.

652. Original paintings in oil, mineral, water, or other colors, pastels, original drawings and sketches in pen and ink or pencil and water colors, artists' proof etchings unbound, and engravings and woodcuts unbound, original sculptures or statuary, including not more than two replicas or reproductions of the same.

SECTION IV.

I. That all goods, wares, articles, and merchandise manufactured wholly or in part in any foreign country by convict labor shall not be entitled to entry at any of the ports of the United States.

J. Subsection 7. That a discount of 5 per centum on all duties imposed by this Act shall be allowed on such goods, wares, and merchandise as shall be imported in vessels admitted to registration under the laws of the United States: *Provided,* that nothing in this sub-section shall be so construed as to abrogate or in any manner impair or affect the provisions of any treaty concluded between the United States and any foreign nation.

H. THE ARGUMENT FROM EXPERIENCE

161. Protection and Prosperity[26]

BY ROBERT ELLIS THOMPSON

The policy of protection is challenged now to justify itself by its works at the bar of public opinion. We are not afraid of that test. We ask your attention to its broad results.

It has raised the average of our national wealth from $514 a head (slaves included) in 1850, to $870 a head in 1880.

It has increased the value of our manufactures five hundred per cent, and that of our foreign commerce in the same ratio, while the commerce of England increased but three hundred and fifty per cent.

It has secured higher wages to our workmen and better prices to our farmers, without increasing to either the cost of staple manufactures, as is shown by comparing the prices of textiles and hardwares before and since 1860.

It has diversified our industries and raised our people out of that uniformity of occupation which is the mark of a low industrial development.

It has stimulated inventions and improvements to the degree that some of the great staples of necessary use have been permanently cheapened to the whole world.

It has drawn the different sections of the country into closer business relations, and has interlaced the great trunk lines of railroad to the West with others running Southward.

It has brought the foreign artizan across the ocean, and has naturalized his craft on our shores, whereas Free Trade would have brought his work only.

It has made us as regards the great staples independent of all other countries in case of war, while it has consolidated the national

[26]Adapted from *Protection to Home Industry,* 57–58 (1886). The student can easily find for himself a contemporary reading making practically the same argument.

unity and increased the national strength to a degree that makes the rest of mankind anxious to be at peace with us.

It has created a sentiment in favor of this policy so powerful that no political party ventures to oppose it openly, and such that the friends of Free Trade are hardly heard in our national campaigns.

162. American Free Trade and American Prosperity[27]

BY GEORGE BADEN-POWELL

It is no long task to show that the prosperity of the United States exists in spite of, and not because of, Protection. So seldom do we remember that absolute Free Trade has been long and firmly established throughout the United States, and that it exerts an influence many, many times greater than that exerted by Protection. Free Trade reigns absolute and supreme within the frontiers of the United States. The full import of this fact is seen when we remember that the rapidly increasing population imports from abroad only one-quarter of the value of the goods that the British Isles import. And the vast and important home market of so very large and so very self-dependent a population is regulated entirely on principles of absolute Free Trade.

The importance of this fact is all the more evident if we remember that the United States is about as large as Europe, but with only one-seventh of the population. We have indeed a territory equalling Europe in extent and in variety of soil, climate, and product. But properly to picture the case we must sweep out of Europe all the English, Dutch, Danes, Swedes, Germans, Russians, Austrians, Italians, Swiss, Spaniards, Portugese, and Turks, and then distribute and settle over the whole area of Europe the population of France and Belgium only. Then if we add to such distribution of population perfect freedom of interchange of products all over this Europe, we will have a picture of the condition of the United States at the present day. It has been the dream of Cobden's disciples to extend Free Trade over Europe. America has long ago and definitely established Free Trade over an area equalling that of Europe.

It is evident that the prosperity in the United States is due to this freedom of exchange and the comparative paucity of the people engaged in the highly profitable task of developing vast virgin resources. Of a truth the United States is a glaring instance of the

[27]Adapted from *State Aid and State Interference*, 32–37. Copyright by Chapman & Hall.

high economic value of Free Trade. Protection, influencing only by means of a comparatively insignificant import trade, is but a weakly drag on this prosperity. It occupies an altogether subordinate position as the direct factor for or against this prosperity.

163. Free Trade and Prosperity[28]

HOW WORKMEN'S WAGES HAVE GONE UP SINCE 1880

The increase in wages in the chief industries throughout the United Kingdom in the last 20 years, according to the Third Fiscal Blue Book (p. 212), has been as follows:

Agriculture - - - -	10 per cent
Building Trades - - -	17 "
Coal Mining - - - -	52 "
Engineering - - - -	15 "
Textiles - - - - -	22 "

FREE TRADE MEANS AN INCREASE IN YOUR WAGES

FREE TRADE GIVES US THE FOREIGNER'S JOB

One of the most absurd posters issued by the Tariff Reformers was one in which a British Workman was supposed to say: "**The Foreigner has got my job.**"

THAT POSTER IS A FRAUD

It is the Foreigner who provides jobs for British Workmen!

FOR EVERY £1 OF MANUFACTURED GOODS IMPORTED INTO THIS COUNTRY OVER £2 WORTH ARE SENT ABROAD

[28]Adapted from *Wages, Food Prices, and Savings,* a pamphlet used by the Liberal party in the English Parliamentary campaign in 1909–1910.

THE WORLD BANKS IN BRITAIN

Under Free Trade Great Britain is the Banking Centre of the World

The growth of British Banking may be measured by the value of the business transacted during the last 40 years.

Here are the figures of the Bankers Clearing House Returns:

1869	£ 3,626,000,000
1879	4,886,000,000
1889	7,619,000,000
1899	9,150,000,000
1909	13,525,000,000

FREE TRADE MEANS LARGER INCOMES

Great Britain's increasing prosperity under Free Trade is shown by the fact that the amount raised by the Income Tax has steadily increased.

In **1882** a tax of 1*d.* in the £ produced

£1,915,000

In **1909** a tax of 1*d.* in the £ produced

£2,784,000

More pounds were earned, and consequently more people were able to pay Income Tax in 1909 than in 1882.

Those who pay Income Tax have larger Incomes than before.

PROGRESS ON THE RAILWAY

EXPRESS SPEED TO PROSPERITY

The growth of business under Free Trade can be seen by the increase in the traffic on our railways as shown by the following official figures:

PASSENGER TRAFFIC RECEIPTS

1880	£27,200,000
1890	34,300,000
1900	45,400,000
1909	51,200,000

GOODS TRAFFIC RECEIPTS

1880	£35,700,000
1890	42,200,000
1900	53,500,000
1909	59,500,000

THE NUMBER OF RAILWAY SERVANTS EMPLOYED HAS INCREASED FROM 398,000 IN 1897 TO NEARLY 500,000 IN 1909

THE PROFITS OF RAILWAYS HAVE INCREASED FROM £38,000,000 IN 1895, TO £45,136,000 IN 1909

I. THE IMPRACTICABLE NATURE OF PROTECTION

164. A Humble Request of Congress[29]

Resolved, That the mutuality of the interests of the wool producers and wool manufacturers of the United States is established by the closest of commercial bonds, that of demand and supply; it having been demonstrated that the American grower supplies more than 70 per cent of all the wool consumed by American mills, and, with equal encouragement, would soon supply all which is properly adapted to production here; and further, it is confirmed by the experience of half a century that the periods of prosperity and depression in the two branches of the woolen industry have been identical in time and induced by the same general causes.

Resolved, That as the two branches of agricultural and manufacturing industry represented by the woolen interest involve largely the labor of the country, whose productiveness is the basis of national prosperity, sound policy requires such legislative action as shall place them on an equal footing, and give them equal encouragement and protection in competing with the accumulated capital and low wages of other countries.

Resolved, That the benefits of a truly national system, as applied to American industry, will be found in developing manufacturing and agricultural enterprise in all the States, thus furnishing markets at home for the products of both interests; and

Resolved, further, That it is the sense of this meeting that in the coming revision of the tariff the present duties both on wool and woolen goods be maintained without reduction.

[29]Resolutions of the National Wool Growers' Association and National Association of Wool Manufacturers, *Hearings of the Ways and Means Committee of the House of Representatives,* 60th Cong., 2d sess., House Document 143, 5331 (1909).

165. Woolens and Welfare[30]

BY N. T. FOLWELL

Unlike the iron and steel industry, where machinery manufacture cheapens the cost of production, the manufacturer of worsted and woolen textiles has no advantage over his European competitor in quantity produced; man for man, loom for loom, the production is the same. The climate of England, France and Germany is better adapted for spinning than ours, and they can spin finer yarn from the same grade of wool than we can here, and consequently can run their spinning frames at a higher rate of speed, thus getting greater production. The oft-repeated story that an American workman can produce more than his brother abroad is false as far as the worsted and woolen trade is concerned.

Our mills have been at a high cost of labor and materials and are partially filled with machinery that has paid a duty of from 30 to 60 per cent. All the numerous articles which go to equip a mill have cost from 30 to 50 per cent more than the amount required abroad.

Our wages are double what are paid in England and three times the amount paid in France and Germany.

There is no reason why the rates of duty should be lowered on worsted and woolen textiles, as conditions which prevail today are no different from those which prevailed at the time the Dingley bill became a law, with one exception, namely our wages have increased.

We are importing from two to three million dollars per week, foreign cost, of dry goods, and this fact is conclusive proof that the tariff should be raised rather than lowered.

166. A Recipe for Securing Duties[31]

Elsmere, April 4, 1897.

Dear Mr. Whitman: Now about the tariff. I cannot, after what has been said to me in reference to my confidential relations with the committee, keep you posted as I would like to do. . . Let me ask you a question. Should tops at a 24-cent line have the same

[30]Adapted from *Hearings of the Ways and Means Committee, ibid.*, 5341 (1909).

[31]Adapted from *Hearings of the Ways and Means Committee, ibid.*, 5492–5493.

compensatory duty as yarns at a 30-cent line? Should tops at a 24-cent line have a compensation duty of 27½ cents? . . I do not want you to intimate to any Senator that I have written you on this subject. I am kept at work from 10 A. M. until midnight and I have not sufficient clerical assistance as yet. I am the only person whom the committee allows at its meetings.

Truly yours,

S. N. D. North.

Boston, June 2, 1897.

My dear Mr. North: We all depend upon you to watch closely our interests, to see that nothing is overlooked or neglected by our friends on the committee. I have no doubt they will do all they can do, but with so many interests to look after, our special representative must see to it that our interests receive proper attention.

Yours very truly,

William Whitman.

167. The Tariff a Local Issue[32]

Local interests, rather than fundamental considerations of principle, are the motives determining the attitude of the average congressman on the tariff. He is supremely concerned with securing for the favored interests of his own district all the protection possible. His concern for interests in other districts is a mere means to this more important end. Alone he can accomplish nothing. He is perforce compelled to favor duties on articles produced elsewhere in order that he may secure what he desires. As a result a struggle over a tariff is by no means an attempt properly to apply fundamental and well-recognized principles to particular situations. It is rather an attempt to reconcile a conflict of a multitude of local and industrial interests.

The following typical proposals will give a fair idea of the raw material out of which the tariff bill of 1909 was constructed. They will also throw some light upon the logic of the process by means of which the bill finally assumed form. A Massachusetts Republican demanded that hides be put on the free list. A Texas Democrat insisted that the duty on hides be raised. A South Carolina Democrat demanded a protective duty on rice. Free coal was pronounced by a Pennsylvania Republican to be a repudiation of the policy of protection. Several representatives, from different parts of the

[32]The evidence upon which this reading is based is all taken from *The Congressional Record,* 1909.

country, pleaded for higher duties on glass. Senators from the Rocky Mountain states dwelt upon the importance of protection of wool. The representatives from California demanded protection on lemons. A Democratic senator from Texas demanded a high duty on lumber. A Michigan Republican argued as ardently for a duty on sugar. A congressman from New York insisted that a duty on postcards would even things with Germany. Only one man was patriotic enough to want to apply the principle of protection without the slightest reservation. An Iowa congressman rose to the occasion by pleading that selfishness should be laid aside, that all should forget local and personal interests, that America should be the matter of first concern, and that the new tariff should be framed in such a way as adequately and equally to protect all industries.

Senator Knute Nelson, of Minnesota, a protectionist and a Republican, summed up the situation in these words: "I am tired of being lectured to about these schedules, and about the orthodoxy of the Republican party. Let us recognize the fact that with a tariff bill it is just as it is with the River and Harbor bills. There is no use disguising it. You tickle me and I tickle you. You give us what we, on the Pacific coast, want for our lead ore and our citrus fruit, and we will tickle you people of New England and give you what you want on your cotton goods. When you boil down the patriotism of the speeches just made you come to the same basis as that of the River and Harbor bill. You vote for my creeks, you vote for my harbors, you vote for my rivers, and I will vote for yours, and it will be all right."

168. Tariff for Politics Only[33]

BY PETER FINLEY DUNNE

"Well, sir, 'tis a gr-r-and worruk thim Sinitors and Congressmen are doin' in Wash'n'ton. Me heart bleeds for the poor fellows, steamin' away undher th' majestic tin dome iv th' capitol thryin' to rejooce th' tariff. The likes iv ye want to see th' tariff rejooced with a jack plane. But th' tariff has been a good frind to some iv thim boys an' it's a frind iv frinds iv some iv th' others an' they don't intend to be rough with it. A little gentle massage to rejooce th' most prom'nent prochooberances is all that is nicessry. Whiniver they rub too hard, Sinitor Aldhrich says, 'Go a little asier there, boys. He's very tender in some iv thim schedules. P'raps we'd better give

[33]Adapted from "The Tariff," in *Mr. Dooley Says,* 144–157. Copyright by Charles Scribner's Sons (1909).

him a little nourishment to build him up,' he says. An' th' last I heerd about it, ye won't notice anny reduction in its weight. No, sir, I shudden't be surprised if it was heartier than iver.

"Me congressman sint me a copy iv th' tariff bill th' other day. I've been studyin' it f'r a week. 'Tis a good piece of summer lithrachoor. 'Tis full iv action an' romance. It beats th' Deadwood Dick series. It gives ye some idee iv th' gloryous govermint we're livin' undher, to see our fair Columbia puttin' her brave young arms out defindin' th' products iv our soil fr'm steel rails to porous plasthers, hooks an' eyes, artyficial horse hair and bone casings, which comes under th' head of clothin' an' I suppose is a polite name f'r pantaloons.

"Iv coorse, low people like ye, Hinnissy, will kick because it's goin' to cost ye more to indulge ye'er taste in ennervating luxuries. D'ye know Sinitor Aldhrich? Ye don't? He knows ye. 'Tis as if he said: 'This here vulgar plutocrat, Hinnissy, is turnin' th' heads iv our young men with his garish display. Befure this, counthries have perished because iv th' ostintation iv th' arrystocracy. We must presarve th' ideels iv American simplicity. We'll put a tax iv sixty per cent on ready made clothin' costin' less thin ten dollars a suit. That'll keep Hinnissy from squanderin' money wrung fr'm Jawn D. in th' roo dilly Pay. We'll make a specyal assault on woolen socks an' cowhide shoes. We'll make an example iv this here pampered babe iv fortune,' says he.

"An' there it is. Ye haven't got a thing on ye'r back excipt ye'er skin—an' that may be there; I haven't got as far as th' hide schedule yet. It's ye'er own fault. If ye will persist in wearin' those geegaws ye'll have to pay f'r thim. If ye will go on decoratin' ye'er house with shingles an' paint an' puttin paper on th' walls, ye've got to settle. That's all.

"Ye'd think th' way such as ye talk that ivrything is taxed. It ain't so. 'Tis an insult to th' pathritism iv Congress to say so. Th' Republican party, with a good deal iv assistance fr'm th' pathriotic Dimmycrats, has been thrue to its promises. Look at th' free list, if ye don't believe it. Practically ivrything nicissry to existence comes in free. What, for example, says ye. I'll look. Here it is. Curling stones. Ye'll be able to buy all ye'll need this summer for practically nawthin. What else? Well, teeth. Here it is in th' bill: 'Teeth free iv jooty.' Undher th' Dingley Bill they were heavily taxed. Onless ye cud prove that they had cost ye less thin a hundred dollars, or that ye had worn thim f'r two years in Europe, or that ye were bringin' thim in f'r scientific purposes or to give a museem, there was an enormous jooty on teeth. Now ye don't have to hand a five

to th' inspictor an' whisper: 'I've got a few bicuspids that I picked up abroad. Be a good fellow and let me through.' No sir, teeth are free.

"What other nicissities, says ye? Well, there's sea moss, newspapers, nuts, an' nux vomica. They've removed th' jooty on Pulu. I didn't think they'd go that far. Ye know what Pulu is, iv coorse, an' I'm sure ye'll be glad to know this refreshin' bev'rage or soap is on th' free list. An' cannary bur-rd seed is fhree. Lookin' down th' list I see that divvy-divvy is free also. But there are other items, mind ye. Here's some of them: Apatite, hog bristles, wurruks iv art more thinn twinty years old, kelp, marshmallows, life boats, silk worm eggs, stilts, skeletons, turtles, an' leeches. Th' new tariff bill puts these family commodyties within th' reach iv all. An' yes, opium is on th' free list. Th' tariff bill woulden't be complete without that there item. But it ought to read: 'Opyum f'r smokin' while readin' th' tariff bill.' Ye can take this sterlin' piece of lithrachoor to a bunk with ye an' light a ball iv hop. Befure ye smoke up p'raps ye can't see where th' tariff has been rejooced. But afther ye've had a long dhraw it all becomes clear to ye. Ye'er worries about th' children's shoes disappear an' ye see ye'ersilf floatin' over a purple sea, in ye're private yacht, lulled by th' *London Times,* surrounded be wurruks iv art more thin twinty years old, atin' marshmallows an' canary bur-rd seed, while the turtles an' leeches frisk on th' binnacle.

"Well, sir, if nobody else has read th' debates on th' tariff bill, I have. Th' walls iv Congress has resounded with th' loftiest sintiments. Hinnery Cabin Lodge in accents that wud melt the heart iv th' coldest manyfacthrer iv button shoes has pleaded f'r freedom f'r th' skins iv cows. I'm sorry this appeal wasn't succissful. Th' hide iv th' pauperized kine iv Europe will have to cough up at th' custom house before they can be convarted into brogans.[34] This pathriotic result was secured be th' gallant Sinitor fr'm Texas. He's an ardint free thrader, mind ye. He's almost a slave to th' principles iv th' Dimmycratic party. But he's no blamed bigot. He can have principles an' lave thim alone. An' I want to tell ye, me frind, that whin it comes to distributin' th' honors f'r this reform iv th' tariff, don't fail to throw a few flowers at th' riprisentatives iv our small but gallant party. It was a fine thing to see thim standin' be th' battle cry iv our grand old organyzation.

"Says th' Sinitor fr'm Louisyanny: 'Louisyanny, th' proudest jool in th' dyadim iv our fair land, remains thrue to th' honored

[34]It is prosaic to spoil Mr. Dooley's figure by stating that he is wrong on this point. Hides were admitted free of duty by the Payne-Aldrich bill.

teachin's iv our leaders. Th' protective tariff is an abomynation. It is crushin' out th' lives iv our people. Wan iv th' worst parts is th' tariff on lathes. Fellow sinitors, as long as one dhrop iv pathriotic blood surges through me heart, I will raise me voice again a tariff on lathes, onless,' he says, 'this dhread implyment iv oppressyon is akelly used,' he says, 'to protict th' bland an' beautiful molasses if th' State iv me birth,' he says.

" 'I am heartily in sympathy with th' sinitor fr'm Louisyanny,' says th' Sinitor fr'm Virginya. 'I loathe th' tariff. Fr'm me arliest days I was brought up to look on it with pizenous hathred. At many a convintion ye cud hear me whoopin' agin' it. But if there is such a lot iv this monsthrous iniquity passin' around, don't Virginya get none? Gintlemen, I do not ask, I demand rights f'r me commonwealth. I will talk here ontil July fourth, nineteen hundred an' eighty-two, agin' th' proposed hellish tax on feather beds onless somethin' is done f'r th' tamarack bark iv old Virginya.'

"A sinitor: 'What's it used f'r?'

"Th' sinitor fr'm Virginya: 'I do not quite know. It is ayether a cure f'r th' hives or enthers largely into th' mannyfacture iv carpet slippers. But there's a frind of mine who makes it an' he needs the money.'

" 'Th' argymints iv th' Sinitor fr'm Virginya are onanswerable,' says Sinitor Aldhrich. 'Wud it be agreeable to me Dimmycratic colleague to put both feather beds an' his what-ye-call-it in th' same item?'

" 'In such circumstances,' says th' Sinitor fr'm Virginya, 'I would be foorced to waive me almost insane prejudice again' th' hellish docthrines iv th' distinguished Sinitor fr'm Rhode Island,' says he.

"An' so it goes, Hinnessy. Nivir a sordid wurrud, mind ye, but ivrything done on th' fine old principle iv give an' take."

"Well," says Mr. Hinnessy, "what difference does it make? Th' foreigner pays th' tax, anyhow."

"He does," said Mr. Dooley, "if he ain't turned back at Ellis Island."

169. Tricks of Tariff Making[35]

A superficial comparison of two tariff bills gives very little clue to the differences between them. An accurate count of the number of increases and decreases in the later, as compared with the earlier bill, throws no light upon the larger question of whether the revision

[35]The evidence presented in this reading is all taken from "The Tariff of 1909," by H. Parker Willis, in the *Journal of Political Economy*, XVII, 597–611.

was an upward or a downward revision. This method is important only because of its suggestion of a method for proving to superficial observers that there has been an upward or a downward revision. Real changes and their effects can be determined only by examining rates on particular commodities in view of a knowledge of all the conditions surrounding the production of these commodities. This can be well illustrated by reference to the tariff of 1909.

The statement has been repeatedly made that this tariff substantially reduced the level of duties. The conclusion is established by the arithmetical process of counting advances and reductions. It fails, however, to take into consideration the fact that most of the duties reduced were upon commodities which are produced in this country for export. In such cases tariff duties are purely nominal. They can in the very nature of things furnish no protection, because there is nothing to protect against. On the contrary the increases were upon goods which needed, or at any rate could profit by, advances. To take a few illustrations: In Schedule A the duties on most acids were cut, as well as upon ammonia, borax, and ether. On drugs, however, which were in position to profit, substantial advances were made. In Schedule B the rates were reduced on firebrick, marble, onyx, granite, and other non-portable articles. On pumice stone and certain grades of glass, duties, however, were raised. In Schedule C the reductions in nominal duties were very large, that on iron ore dropping from 40 to 15 cents. Yet upon the more expensive and finished metal products there were material advances. The best examples in the bill, however, are contained in Schedule G, dealing with agricultural products, of which we export very large surpluses. Neglecting the obvious facts of the grain trade, Congress tried to give the impression of great care for the farmer. Thus on broom corn, which had been free, a duty of $3 a ton was imposed; the rate on buckwheat flour was raised from 20 to 25 per cent; on oats from 15 to 20 cents a bushel. Hops were advanced from 12 to 15 cents a pound. For some obscure reason the duty on cabbages was dropped from 3 to 2 cents. Nursery stock and fruits received a general raise. Congress, of course, did not overlook the opportunity of dealing the usual "blow at the beef trust" by reducing the duty which it did not need.

But many devices much more subtle than these found their way into the bill. Many changes were made in the unit of measurement for customs purposes. Electric lighting carbons, for instance, which had been 90 cents per hundred, were now made 65 cents per hundred feet on certain grades and 35 cents on other grades, the only kind imported in practice being dutiable at the higher rate. A provision

in the cotton schedule that in counting threads, upon the number of which the rate of duty depended, "all the warp and filling threads" should be included, operated practically to double the duties upon some classes of goods, in so much as, under the former method of counting, "double yarns," in which the thread is twisted together out of two or more yarns, had been counted as a single thread. The enormous concession made to the public by the reduction of the tariff on sugar by one-twentieth of a cent a pound, a reduction which could have no influence on price, was the mask for changing the method of weighing sugar, which in itself amounted to a substantial increase in duty.

These examples by no means cover the act. In fact it is doubtful whether all the tricks in the bill will ever be discovered. However, they are typical of the kinds of tricks that are incorporated in the American tariff bill.

J. THE SCIENTIFIC REVISION OF THE TARIFF

170. Producers' Costs and Tariff Duties[36]

BY WILLIAM C. REDFIELD

In the Republican platform of 1908 appeared the following words: "In all tariff legislation the true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries."

It is a great pity that those words were printed only in the English language. It is a pity that they were not translated into Japanese, that they might adorn the cabs of the 720 American locomotives in Japan; and into Chinese, that those in Manchuria who wear American cottons might know how self-sacrificing the makers were in selling them to them. It is a pity that they were not translated into Hindu, that the stokers of the Calcutta electric-light works might know how generous was the American firm that sold them their apparatus.

But since the difference in the cost of production is said to be such that we need protection against the manufacturers abroad, let us look more closely at those words. Speaking from a manufacturer's standpoint, I venture to think it can be shown that this statement of the Republican platform has these definite characteristics. 1) It involves certain contradictions, well known to manufacturers, which destroy its force. 2) It assumes the existence

[36]Adapted from *The New Industrial Day*, 81–102, 120, 122, 127, 130–131. Copyright by the Century Co. (1911).

of facts which do not exist. 3) It may involve such discrimination against some American manufacturers and in favor of some foreign manufacturers as is certainly unjust. 4) It ignores the nature of cost and the nature of competition, and, taken on its face, calls for the removal of the duties on many American manufactures. 5) It has worked grave injustice to our poor people and disaster to many American manufacturers.

These things I believe at the end of twenty-five years' manufacturing experience. I have found it possible, and we all know hundreds of American manufacturers have found it possible, to compete in the markets of the world. How does it happen that in a quotation recently made for machinery to a mine in Japan the American price was $215 less than the English price. Last year I was in the city of Tokyo, and a friend who was with me took a large contract from the Japanese Imperial State Railways, in open competition with Germany and England for several million dollars' worth of locomotives. That gentleman, at the locomotive shops of the Imperial Railways, was told, "We can make locomotives much cheaper than you can in America." "Can you?" inquired my friend. "If so, let us get at the facts. What makes you think your locomotives cost less than ours?" "Why," the Japanese replied, "because we pay only one-fifth the wages to our men that you pay to yours." So they got the cost books, and discovered that the labor cost for locomotives on the same specifications was three and one-half times greater in the Japanese than in the American shop. That is a perfectly normal fact.

Another illustration may be interesting. My agent in the city of Calcutta one day called my attention to the shoes he was wearing. He said, "I paid $3.85 for those shoes." "Why," I said, "that is an American shoe." "Yes," he said, "I bought it here. It is the regular American $5 shoe."

I treasure as a souvenir a small, ordinary pencil. It has upon it the name of the American Lead Pencil Co. I bought it out of stock in the small town of Bandoeng, in central Java. I have in my home some men's toilet articles—shaving soap, etc., made in New Jersey. I bought them in Hongkong.

Yet we are told that though foreign manufacturers are handicapped by distance, time, and freight, we can not compete with them at home because we pay high wages. To end these illustrations, let me give a list taken at random from one export journal of American goods offered abroad for sale in open competition with Germany and Great Britain: "Ironmongery, fine tools, bicycles, sporting goods, lamps, razors, firearms, carriage makers' supplies,

sanitary goods, lighting systems, dry goods, men's furnishings, boots and shoes, corsets, hats and caps, textiles, clothing, women's furnishings, office furniture, office devices, stationery, typewriters, filing cabinets, printers' supplies, paper, machine tools, boilers, lubricants, electrical material, valves, wood-working machinery, belting, shafting, pulleys, packing, furniture, kitchenware, and agricultural implements." There are manufacturing houses in America that sell almost no goods in the United States. They pay as high wages as anyone.

It is often assumed that American manufacturers cannot compete in the world's market on even terms without protection, and can not even hold their own at home. The only way suggested of meeting competition is by reducing wages, the crudest, the coarsest, and the most brutal of all methods.

To get at the heart of the question, let us look at the cost of production from the manufacturer's stanpoint. There are four groups that enter into every factory cost: 1) the cost of labor; 2) the cost of material; 3) overhead charges; and 4) selling cost. The aggregate of these four fixes the point per unit where profits begin. Let us discuss them separately:

First, labor cost. In a modern industry this is often not the largest element in cost per unit of product. It is a matter of testimony that in an American locomotive the percentage of direct labor cost is eighteen and that of material and overhead charges eighty-two. The important factor in labor cost is not the rate of wage, but the rate of output. It is not what you pay but what you get from what you pay that counts.

Once in Paris I employed a lot of French carpenters and paid them each $1.90 a day, and at the end of four days I was well-nigh crazy. Accidentally I found a man who looked like an American carpenter. "Are you a Yankee?" I said. "I want to employ you at once." He said, "Boss, I charge $4.50 a day." I said, "Come right along." Two days later I discharged four Frenchmen, for my one American carpenter did more than four Frenchmen. There are sound reasons for this. A French workman goes to work having eaten almost nothing. For breakfast he has a bit of bread and coffee. At eleven o'clock he eats a little bread and drinks a little sour wine. At three he does the same. At night he has what he calls a dinner. Such a man cannot work at any labor requiring steady physical exertion in competition with a man who eats three square meals a day.

Cost is everywhere and always variable—at every time and in every place. Output varies with the character of the workman, the

equipment, the arrangement, with the nature of the superintendence, with the discipline. It is absurd to assume that work done by a man paid $4 daily costs more per unit than work done by a man paid $2. It may be more or less costly. Therefore, because certain goods are produced at a certain labor cost per unit when the wage rate is $3 per day in a certain place, it can never be argued that the same wage rate on similar goods results in like labor cost per unit in another place. It may vary ten to fifty per cent. To discuss the wage-rate as the controlling factor in labor cost per unit is both inadequate and misleading. To say that a man gets $3 per day means nothing at all as to the cost of his product. It may be either high or low.

Apart from the wage rate, labor cost per unit is very largely under the control of the manufacturer and may be radically altered without changing the wage rate at all. I know a factory in which the product was doubled in two years without adding a man or without adding a machine. This is how it came about. The men had been paid on day work. The head of the concern changed to a piece work plan, guaranteeing the day wage as a minimum, and further guaranteeing that the piece work rate should not be cut. The first result was largely to increase the product. Then three other things happened. The manufacturer went to a man and said, "Pat, you are earning pretty good wages. The more you earn the better for us both. But there is one thing you cannot afford, and that is to have your machine shut down for repairs. It hurts me and hurts you every hour that machine is idle." The result was that the fifteen minutes which the employees were induced to spend in overhauling the machine each day saved many thousands a year for the factory. In the next place more scientific firing saved one-eighth of the operating time of that part of the plant, besides an immense saving in fuel. In the third place several thousands a year was saved on preventing the output of bad goods. In these ways the output of the factory was doubled in two years and the same thing is possible everywhere.

Labor cost per unit varies with time and place, and in the same shop is constantly changing. It is affected by sanitary and climatic conditions. It is enormously modified by the progress of inventions. The labor cost in July may be entirely altered in December. It varies with the arrangement of the machinery within the shop, is affected by the space available. It varies with the sufficiency and regularity of the supply of material and its suitability to the work. It is affected by the lighting and the power equipment of a

shop and will change with a change in superintendents. It is affected by the methods of paying. And I write from an experience in figuring labor costs to hundredths of a cent per unit. Labor cost is, therefore, a variable element. It can not be measured by any fixed standard. To offer a fixed rate of duty to cover the differences in labor cost is to state an absurdity, for the one is variable and the other is fixed. In like manner it can be shown that costs of material, overhead charges, and selling charges are variable.

In fact, given the scientific spirit in management, constant and careful study of operations and details of costs, modern buildings and equipment, proper arrangement of plant and proper material, ample power, space and light, a high wage rate means inevitably a low labor cost per unit of product and a minimum of labor cost. A steadily decreasing labor cost per unit is not inconsistent with, but is normal to, a coincident advance in the rate of pay when accompanied by careful study of methods and equipment. Conversely low-priced labor nearly always is costly per unit produced, and usually is inconsistent with good tools, equipment and large and fine product. From the above it is affirmed, without fear of successful contradiction, that American production today is often as cheap or cheaper in the labor cost per unit than foreign, and, so far from needing protection, it needs to be set free, that we may conquer the world.

I believe that protection is an injury to American manufacturers by limiting their scope and by narrowing their horizon. I believe it costs them enormously in the loss in foreign business, and that is one reason why manufacturers in this country are so rapidly ceasing to be protectionists. Another reason for their change of faith is that their plants have become so large that only in rare years has the demand in this country become enough to take their total product, and they have had to sell abroad. And so long as they must pay the high price for materials they find it somewhat difficult to sell abroad, although they succeed at it. An overstocked domestic market is often no theory but a real condition. Take away the shackles that bind the manufacturer and he will be free to sell in the world's markets, without touching his pay roll.

Protection, however, causes a manufacturer almost inevitably to depend on the Government for help, instead of carefully and minutely studying the details of his own business. Protection, moreover, has enabled many American manufacturers to prosper by selling to their fellow countrymen at prices so high that they have not thought it necessary to study their own businesses closely, because they depend upon Government backing.

171. Investigation and Tariff Legislation[37]

BY HENRY C. EMERY

It is easy to point out the difficulties in determining the cost of production, the great variations in the cost of production at different times and in different places in the same country, and the absurdity of applying this principle with absolutely rigid logic. But any principle of actual commercial legislation must be somewhat rough and ready and is never intended by practical men to be carried to absolutely logical conclusions. It can, of course, be pointed out that in strict logic such a principle as that just mentioned would require the enactment of a different tariff on goods imported from different countries, according to the variations in cost of production in those countries.

This, however, can be easily met by the application of a little common sense and the recognition that the real question is to adjust rates in such a way as to meet the competition of the chief competing country. If there are several countries whose products compete actively, the true protectionists would demand that rates should be adjusted to meet the competition of that country in which the cost of production was the lowest.

It can, of course, be pointed out, furthermore, that the logical application of this principle would require enormous duties on articles, like coffee and rubber, which are not produced in this country at all. But here, again, it is not a question of strict logic, but of practical common sense. Not even the most extreme protectionist ever dreamed of applying the principle to articles of this kind.

I am convinced, however, that it is possible in the case of most staple articles of manufacture, to determine the *ratio* of the costs between two different countries with sufficient accuracy for practical legislation. There is, of course, no single cost of production of any article for a given country, but there is a fairly definite difference in the money costs of a given specified article between two different countries; and this ratio can in many cases be sufficiently well determined to make such information of great value.

As to the question of getting this information, the problem has proved easier, so far as domestic manufactures are concerned, than was expected, and has not proved insuperable in the case of foreign manufactures. Although in most cases it is impossible to get foreign information as complete and detailed as that which can be se-

[37]Adapted from an article in the *American Economic Review*, II, Supplement 20–25. Copyright by the American Economic Association (1911).

cured for the industry in this country, we are convinced that enough information can be secured for an adequate basis of judgment. In any case, even if foreign costs could not be secured, the determination of the cost of production at home would still be an important part of a tariff inquiry. The real question is not so much what is the actual mill cost in a competing country, but at what prices and under what conditions could goods be laid down in the American market to compete with the home product in the absence of any customs duty. These facts can be determined with sufficient accuracy for legislative purposes.

Of course, many of you will say that all the foregoing implies the maintenance of the protective principle, and that since you do not believe in the protective principle you can see no utility in investigations of this kind. There are two answers to this. In the first place, it seems to me absurd to protest against a better method of accomplishing a given result, simply because you do not believe in the result itself. If the free trader can get his policy adopted and put into actual practice by the people, well and good. But if, as a matter of actual politics, the people prefer a protective tariff, even the free trader ought to welcome an effort to have such a tariff, of which he disapproves in principle, levied as honestly and fairly as possible. To do otherwise, would be to put one's self in the position of a man who could oppose regulations protecting the safety of passengers in ocean travel, or the welfare of seamen engaged in such occupation, on the ground that he did not believe in people going abroad, and therefore did not believe in making travel as safe as possible.

The second answer is that a tariff with no protection features has never been seriously considered by any political party in this country. One great party does, on the whole, believe in a revenue tariff and is working toward that end, meaning by this only that duties shall be levied primarily for revenue purposes rather than for protective purposes. However, this program involves the placing of import duties on a large variety of articles which are produced at home and which consequently bear incidental protection.

Therefore, a study of relative industrial conditions becomes as important for the person who believes in a revenue tariff as it does for the protectionist. In the first place, it may be assumed that a Congress wishing to adjust duties in this way, while aiming solely to secure revenue, would prefer to get the needed revenue with the least disturbance possible to business. Furthermore, they wish

to raise the largest amount of revenue with the least burden possible on the consumer. This, again, can be determined only after a very careful study of relative industrial conditions.

Even more important, however, from the point of view of the revenue principle, is the fact that, where it is intended to raise revenue by imposing duties on a large number of articles rather than on a few non-competing articles, it is impossible to make any accurate estimate of what the revenues will be, until a study has been made of relative prices and costs as a basis for determining how far imports would be increased or decreased by changes in duties.

172. The Impossibility of Ascertaining Costs[38]

BY H. PARKER WILLIS

The case against the cost-of-production theory as a regulator of tariff duties may be summed up in a series of propositions somewhat as follows:

1. In practice the ascertainment of costs is impossible. No board of commission has the power to demand cost statements from manufacturers or producers; and if it had, it could not secure truthful statements. Moreover, there is no way of obtaining statements of any kind from foreigners.

2. Even if all manufacturers both here and abroad were willing to throw open their books in an absolutely honest and impartial way to an all-powerful commission, it would be of little service. This is because cost accounting is not generally practiced by producers and because, where it is practiced, there is no general agreement as to the treatment of different elements of cost.

3. If there were a perfect system of cost accounting installed upon a uniform basis in every plant manufacturing a given article throughout the world, knowledge of comparative costs would still be of little service, since costs in every country would have to be known before any conclusions could be arrived at as to what tariff rate was needed to protect a given country against the competition of others.

4. If all these facts were known for every country, the difficulty would be about as great as it was previously if the data were to be used for the establishment of tariff rates. This is because costs of production vary as widely within a given country as they do between different countries. Unless it were known whether a duty were to be imposed for the purpose of equalizing costs as

[38]Adapted from an article in the *Journal of Political Economy*, XIX, 374–376 (1911).

between the best, the poorest, or the average establishments in the several countries, the information about costs would be useless as a basis of tariff duties.

5. Even with knowledge on all of the points already enumerated, and with a clear-cut intention on the point indicated above, the cost analysis would still be inadequate because of the fact that many commodities are produced in groups, or as by-products of one another, so that to utilize the general cost analysis as a basis for tariff rates, it would be necessary to know the manufacturer's intention with reference to the fixing of prices. It would further be necessary to know that the manufacturer had no disposition to establish "export prices" at rates lower than those that would be dictated by his costs of production.

6. If all of the foregoing factors were known, including positive data regarding the intention of the manufacturer in regard to the establishment of prices, there would still remain the question whether this information about costs, which is necessarily stated in terms of money, would have any real significance of a permanent economic character. Money costs do not correspond in all cases to real costs as measured by sacrifice of labor and capital. It may be true that a given country can produce much more cheaply than another, yet it does not follow that it will so produce, since its cost advantage in some other line may be so much greater as to dictate its devoting its attention almost exclusively to that line.

For all these reasons, the conclusion must be reached that cost of production is both practically impossible and theoretically unsound as a basis for the establishment of tariff duties.

VII

THE PROBLEM OF RAILWAY REGULATION

In a machine system continental in extent and embracing a varied host of correlated industrial activities the railroad occupies a position of strategic importance. Through it the vast and intricate gear of "the industrial machine" is made to "engage." Its rates, by influencing costs and prices, perform important services in the organization and direction of industry. It is inevitable, therefore, that we should have "a railroad problem" which three considerations impel the public to keep alive. First, the railroad is an industrial unit of large size; and in a country steeped in the conventions of competition, the giant is always under suspicion. Second, the business tends to be monopolistic; and to monopoly the public imputes not only horns and forked tail, but a capacious maw as well. Third, it is an instrument possessed of great powers of industrial control; for through its "manipulation" of rates it can cause industry to flourish or fade; it can give to industrial development a "natural" or an untoward direction. These considerations have caused the problem to wear a constant freshness which comes from its varied and never-ending sequel.

When "railroads were new" our people were thoroughly imbued with individualism. Firmly convinced were they that one should have what he earned, and that he earned "what he got." They were satisfied that in competition the public possessed an adequate safeguard. They did not hesitate to pronounce "regulation" "meddlesome interference" and to characterize the almost unthinkable proposal of government ownership as "socialistic." But they had no adequate conception of the nature of the railroad industry. They did not see that railway economy requires monopoly; that the proper performance of its services requires the business to be endowed with public powers; that costs of particular services cannot be isolated to do duty as bases for particular rates; and that "normally the industry is in a stage of increasing returns."

These economic characteristics of the industry, quite in opposition to popular theory, have determined our policy in dealing with it. We have found that attempts to fix rates by competition have resulted in alternate periods of high and low charges, in fluctuating dividends and prices of securities, in speculation and "railroad wrecking," in unpredictable items of future cost, introducing elements of grave risk into every business enterprise. We have been confronted with abundant testimony of discriminations in favor of large shippers and particular localities; and have concluded that "unreasonable rates" were interfering with the "natural" course of development and were favoring monopoly. And more than once we have suspected that, because of its peculiar position, the railroad was inclined to charge too much. These observations we have translated into problems which, through the state, we have tried to solve.

A protracted and unpleasant experience has convinced us, slowly to be sure, that the problem cannot be solved in terms of competition. We have never been quite willing formally to renounce so efficacious an instrument of salvation; but, unconventionally at any rate, we have little by little quit trying to make the railroads compete.

Primarily, perhaps, because discrimination appeals to us as unjust, we have given our attention to the problem of preventing interference with the "natural" course of development. This problem is still in process of solution. The outlawing of rebates has brought forth an almost infinite variety

of ingenious substitutes. As these have been relegated to outer darkness their places have been taken by others. After many years of strenuous effort we have not as yet succeeded in ridding ourselves of this "evil." In fact, it seems that its extirpation can be achieved only by a careful supervision of such matters as billing, the collection of claims, the making of purchases, etc. At present many discriminations are concealed in differences in service. We are realizing this, and service is beginning to be standardized by governmental authority.

The problem of the railroad as a monopoly is also "in solution." The grant to the Interstate Commerce Commission of authority to set aside particular rates has grown into the power to prescribe whole schedules of rates. With this process has come many new "problems." To prescribe "reasonable rates," the Commission has had to know costs. To determine these, it has been compelled, with the assent of Congress, to prescribe uniform accounting systems. The problem has further involved a determination "of what the investment would bear." This has necessitated an evaluation of the railroad properties of the country, an undertaking that will not be completed for many years. The intention, underlying this appraisal, is to limit profits, by a limitation of rates, to a reasonable return. Recently, to quite different effect, the "eastern railroads" were granted permission to raise rates, their plea being one of insufficient profits. Together these things are indications of the development of a policy of limiting railroad dividends to a "fair figure" and of guaranteeing this modest income. In future it will most likely be found inexpedient to meet the exigencies of certain dividends from a changing economic environment by a manipulation of rates. It is, therefore, more than possible that an effort will be made to accomplish this object by breaking the nexus between dividends and earnings from particular properties. This can be done by the substitution of general for particular securities. Such a general policy involves necessarily a regulation of the investments of the railroad.

These implications of legislation and administration deserve more than passing notice. Our devotion to individualism is still strong; our faith in the efficacy of competition, even if shaken a bit, is still firm; we still refuse to discuss government ownership as a practical question. But despite all this, we have created a system of government regulation which involves supervising accounts, evaluating property, fixing rates, and standardizing service; which threatens supervision of expenditures and investments; and which tends to limit the railroad to a definite guaranteed return on its investment. Control is very rapidly passing into the hands of the state. The step to the formal assumption of management and ownership is but a short one. It can be accomplished by a simple substitution of government bonds for railroad securities. Are we destined to take it? If we do, will it be a simple matter of conscious choice? Or will it be a solution that has been forced upon us unwittingly through our attempt to solve isolated railroad problems one at a time?

Thus it has come about that one "railroad problem" after another has been "solved," only to leave a bigger and more difficult problem in its place. The question of government ownership is more intricate than any of its predecessors. If the state does take over the roads, what will be the net gain? Will we be better off than we now are? Will we be better off than we would have been had we never embarked on a course of regulation? If our railroads are socialized, what is the effect likely to be in the solution of our other problems, for instance that of monopoly? What influence is such a step likely to exert upon our theory of the relation of the state to industry and upon our fundamental "principles" and "concepts"? Are we thus for the last time dealing with the railroad problem in isolation, or is it likely to continue with us in ever-varied forms? Is government ownership a mere means of merging a particular problem in the larger problem of the socialization of industry? After government ownership—what?

A. THE FUNDAMENTAL FACTORS OF THE PROBLEM

173. The Extent of American Railway Interests[1]

BY I. LEO SHARFMAN

A discussion of the problems of railway regulation in the United States may well begin with a statement of the extent of the railway interests to be regulated. Some conception may be obtained of the magnitude of these railway interests by a consideration of the extent of mileage, the amount of equipment, the number of employees engaged in the service, the amount of outstanding securities representing capital invested, the number of passengers and tons of freight carried, the revenues accruing from the service, the expenditures involved in rendering it, and the earnings distributed annually as a result of railway enterprise. There are more than 250,000 miles of line in the United States, representing only single track mileage. If we include the length of second, third, and fourth tracks, and the mileage of yard tracks and sidings, the total mileage operated in the United States in 1910 was 351,767. The figures for equipment are equally stupendous. There were 58,947 locomotives and 2,290,331 cars devoted to the service rendered by American railways. The number of employees was 1,699,420—the largest number of wage-earners engaged in any single American industry with the exception of agriculture. The outstanding securities amounted to $18,417,132,238, representing an investment in railway transportation which is likewise second only to agriculture. The number of passengers carried during the year 1910, earning revenue for the railroads, was 971,683,199; the number of tons of freight carried during the same year, earning revenue for the railroads was, 1,849,900,101. If we take distance into consideration and determine the number of passengers and the number of tons of freight carried one mile, the figures become so large as to pass beyond human conception. The number of passengers carried one mile was 32,338,496,329, and the number of tons of freight carried one mile was 255,016,910,451. The revenues from operation amounted to $2,750,667,435; the operating expenditures were $1,822,630,-433; and the earnings actually distributed as dividends during this single year amounted to $293,836,863. The immensity of these figures must be apparent to every one, and no further comment is necessary to indicate the vast extent of American railway interests.

[1]Adapted from an unpublished volume entitled *Railway Regulation,* soon to be published by the LaSalle Extension University.

174. The Dual Nature of the Railway Corporation

We are all familiar with the easygoing classification of business enterprises into public and private. There is something quite satisfying about the ready way in which this antithesis permits one to call the corner grocery a private business and the mail service a public enterprise. Since the two classes are all-comprehensive and mutually exclusive, it is quite unfortunate that their author was not possessed of the supreme pre-wisdom to make provision for the railway which in course of time was to appear, reach gigantic proportions, work itself into the whole fabric of the industrial system, and spoil a very serviceable antithesis. For the railway can be properly called neither a private nor a public enterprise; it partakes of the nature of both.

That it is a private enterprise is the more evident. You know that trains are run by a private corporation; that the corporation sells you a ticket, thereby making a contract with you, to transport you from New York to Philadelphia; that when Hiram Rankin's cow is run over, he brings suit against the New York Central & Hudson River Railroad Company; and that your next-door neighbor, James Street, regularly receives what he calls a dividend on the three shares of preferred stock which he owns in the Pennsylvania. So far as its actual business is concerned, it appears to you that a railway company is much like any other corporation.

But if you will study a moment, you will see just as clearly that the business is of a public nature. You remember your grandfather telling you how, when he was a member of the state legislature back in the forties, he helped put through a bill which appropriated state money to help the K. & W. build a line through your part of the state. You never heard of the state helping Simpkins, the corner grocer, in that way. You remember, too, just a few years ago, that when the L.R. & Q. was running the spur out to Dalton, Rufus Lunsford would not sell the narrow strip of land through his farm, which the company wanted to make a part of their right of way. You remember that he said that he was just as much entitled to that land as any private corporation was entitled to its property; and that no private corporation should get a foot of ground belonging to him. Yet you remember how it turned out—that there was a trial; that the lawyers representing the railway said that the company has been clothed with the right of "eminent domain," and that this gave them the right to take Lunsford's property, if they needed it to complete their line, provided they paid him full compensation for it. You know, too, that the railway has no right to refuse to handle your freight, if you offer it to

them and if you comply with all the conditions. Perhaps you do not know that when the railway first came, it was thought of as a "rail" way, as a public highway upon which each man should be allowed to run his own cars, just as he drove his own carriage or wagon along the thoroughfare. Of course you see that technical difficulties prevented this from being done and led to a single corporation being granted an exclusive right to run trains over the road. But, in making the grant the state was merely meeting the peculiar situation. It was not surrendering all of its rights to the private corporation. Thus you see that the railway corporation is of a public as well as of a private nature.

175. The Economic Basis of Regulation[2]

BY I. LEO SHARFMAN

The need of a system of governmental control arises from the economic characteristics of the railway. Most of the important questions involved in the so-called railroad problem can be traced to the economic character of the railway business. It is necessary, therefore, to indicate the general nature of those economic particularities and their most striking consequences.

The Monopolistic Character of the Railway Business. The need of regulation depends chiefly upon the monopolistic character of the railway business. In ordinary industrial enterprises the existence of competition, when free and unrestricted by artificial means, provides an automatic force for the protection of the public. High prices and large profits in a given industry tend to attract additional capital to that industry, which results, in the long run, in a readjustment of charges and a reduction of net returns. In like manner, inefficient service and goods of inferior quality cannot permanently be imposed upon the public because a policy which is clearly detrimental to the interests of the consumer cannot permanently withstand the force of competition. The railway business, on the other hand, tends to be operated under monopolistic conditions. To some extent railways are entirely exempt from the operation of competition. The amount of capital necessary for the construction of a railway is so large and the task of railway building is so substantial that competition is always relatively slow in becoming active. Capitalists will not unite so promptly in building a parallel road because of the large sums that must be risked in the enterprise; and even when they decide to enter upon such an undertaking, the work of

[2]Adapted from an unpublished volume entitled *Railway Regulation,* soon to be published by the LaSalle Extension University.

construction requires so much time that the appearance of active competition is still further delayed. Moreover, even when the parallel road is built, it actually competes with the original line only at certain points, usually the more important cities, while at intermediate points the lines separate and pass through numerous small communities which have no other railway facilities. At these non-competing points, then, the railways usually enjoy a monopoly of local traffic; and while the number of non-competing points is gradually being reduced by the construction of new steam roads and the multiplication of electric railway lines, doubtless, because of the very nature of the railway, there will always be many localities which, in the absence of government control, will be at the mercy of one transportation agency. In part, therefore, the railway business is clearly monopolistic in character.

The Nature of Railway Competition. But the railway business tends to be carried on under monopolistic conditions even when competition does exist, because of the character of railway competition. Railway rivalry tends to be abnormally keen and competition ruinous. This, in turn, leads to coöperation in various forms, and the inevitable result follows that railway competition becomes self-destructive. Competing railway companies, weary of the keen struggle which invariably ensues when competition becomes active, either assent to a truce whereby competition between them is abolished and an agreement is reached for the maintenance of rates, or they continue their warfare until one of the roads is driven to insolvency, and the unsuccessful line, upon reorganization, is taken over by its victorious rival. In either case effective competition is destroyed and monopoly conditions are established. The basis of this ruinous competition is to be found in two fundamental economic characteristics of the railway business:

Joint Cost and Railway Management. The services of a railway are rendered to a very large degree at joint cost. From one-half to three-quarters of a railway's expenditures must be incurred regardless of the performance of any particular service. In order to conduct transportation at all, a roadbed must be provided, tracks must be laid, terminals must be built. This plant is equally necessary for the transportation of passengers and freight, and express and mail matter. Moreover, it is equally necessary for the transportation of different classes of passengers and different kinds of freight. The expenditures for the fundamental purpose of providing the plant of a railway enterprise create the fixed charges of the business: and these fixed charges, the interest on the capital invested in the construction of the railway, form a part of the

cost of every service rendered by that railway. As far as expenditures for plant are concerned, all railway operations are conducted at joint cost. But even the operating expenses are largely joint. The roadbed and equipment must be maintained in a state of reasonable repair and efficiency, and many of the employees and much of the material necessary for conducting transportation must be provided and most of the general administrative expenses must be met, regardless of the amount or the kind of traffic carried by the railway. In other words, a substantial proportion of the operating expenses, like the fixed charges, are constant. It is practically impossible, therefore, for the railway manager to ascertain the exact cost of a given service. Rate making must necessarily involve a large degree of guesswork, though it is true that this guesswork is entrusted to experts. Railway officials have no means of determining with certainty that rates have been reduced to unprofitable limits. Under the stress of keen competition, then, conditions are decidedly favorable to ruinous rate-cutting: and cutthroat competition invariably becomes self-destructive.

Increasing Returns and Railway Policy. Railway operations are so largely conducted at joint cost because a very large proportion of railway expenditures are fixed or constant. If a railway is built and equipped and is carrying a given amount of traffic, it can usually handle a vastly increased quantity of business at a relatively slight additional expense. Within very wide limits, a given plant and equipment will accommodate a large as well as a small amount of traffic, and the only additional cost involved in handling an increase in traffic will consist in that portion of the operating expenses which varies with the amount and kind of service rendered. In other words, the expenditures of a railway company do not keep pace with the services which it performs; an increase in traffic does not involve a proportionate increase in railway expenditures. If follows, then, that with each increase in the amount of traffic carried, the cost per unit decreases; and the net revenues of a railway increase faster than the growth of its traffic. The railway business is subject to the law of increasing returns: every increase in traffic results in more than a proportionate increase in profits. Railway traffic managers, therefore, work under a powerful incentive to increase the volume of their business, and the competition for traffic is intense. In fact, the passion for traffic becomes the controlling passion of the railway business. Traffic managers consider it their most urgent duty to get business—to get it at the highest rates possible, but in any event to get it. The profitable

limit of rate reduction is so uncertain, because railway expenditures are largely joint, and the advantage of extensive traffic is so great, because railway expenditures are largely constant, that there is a natural and compelling tendency on the part of railway officials to reduce rates to whatever point may be necesary in order to attract business from competing lines. Ruinous rate wars follow and competition tends to destroy itself. These conditions lie at the basis of the abnormal character of railway competition which almost invariably leads to railway operation under monopolistic conditions.

Railway Competition and Discriminatory Practices. The keen rivalry for business leads not merely to rate wars and general rate cuttings, but to discriminatory practices as well. The passion for business is so intense that the traffic manager will resort to any means in order to get it. If the amount of railway traffic can be extended and hence the size of railway profits disproportionately increased by means of granting special privileges in the transportation of one commodity as compared with another, or in the case of one person or locality as compared with competing shippers or markets, railway officials will not hesitate long to resort to these discriminatory practices. The history of American railways, and of our monopolistic industrial combinations or so-called trusts, divulges no greater evil than the granting of railway discriminations in rates and service for the benefit of one person, locality, or kind of traffic, to the prejudice and disadvantage of rival shippers, places, and industries. The motive or stimulus for these practices lies in the keen desire for additional business, with its disproportionate increase in railway profits. Discrimination has been one of the most baneful as well as one of the most certain effects of railway competition.

Railway Discrimination and the Public Welfare. The danger as well as the injustice of discriminatory practices cannot be overemphasized. If our industrial life is to reach its natural and most efficient economic development, there must be freedom of enterprise and fairness of treatment for all persons, all sections, and all undertakings. In a sense, transportation is a fundamental industry, underlying all others; for it is essential to the conduct of all business and goes far towards determining the direction and conditions of industrial activity. The item of transportation, whatever it may be, is one of the elements in all costs, and the outcome of competition between different producers may be largely affected by any divergence in railway rates which must be paid by each of two or more competitors. It follows clearly, then, that the

railway officials who make transportation rates exercise a tremendous power. By the soundness of their adjustment of rates and by the degree of fairness with which established rates are observed, the railways may profoundly affect—or absolutely determine even—the prosperity of individuals, of industries, of cities and towns, or of entire sections of the country. By discriminating between competing shippers, they may destroy the business of one and build up that of another, making one man rich and another poor. By stimulating or discouraging a particular class of traffic they may increase or diminish the importance of industries and the extent of production of particular articles of commerce, shaping the direction of industrial activity. By discriminating among cities and towns, they may cause one to grow and another to decay, determining the commercial importance of business centres. By modifying their rate schedules in special instances, they may determine the location of industries, guiding the movements of population and affecting the prosperity and welfare of extensive localities. By these unfair practices the railways also have it within their power to build up industrial monopoly; and the most powerful of the trusts against which the people are now struggling made their first advances towards control of the market through the agency of special favors in the form of railway discriminations.

176. The Futility of Railway Competition[3]

BY ARTHUR T. HADLEY

We have been taught to regard competition as a natural, if not necessary, condition of all healthful business life. We accept, almost without reserve, the theory that, under open competition, the value of different goods will tend to be proportional to their cost of production. According to this idea, if the supply of a particular kind of goods is short, and the price comes to exceed cost of production, outside capital will be attracted into the business until the supply is sufficiently increased to meet the wants of the market. But as soon as this point is passed, and the price begins to fall below the cost of production, people will refuse to produce at a disadvantage, the supply will be lessened, and the price will rise to its normal figure. If all this be true, competition furnishes a natural regulator of prices, with which it is wicked to interfere.

[3]Adapted from *Railroad Transportation: Its History and Its Laws*, 69–74. Copyright by G. P. Putnam's Sons (1885).

This may once have been true, but it is not true today, that people find it to their interest to refuse to produce, if price drops below cost. To stop producing often involves the greater loss.

Let us take an example from the railway business. A railroad connects two places not far apart, and carries from one to the other 100,000 tons of freight a month at 25 cents a ton. Of the $25,000 thus earned, $10,000 is paid out for the actual expenses of running the train and loading and unloading the cars; $5,000 for repairs and general expenses; the remaining $10,000 pays the interest on the cost of construction. Only the first of these items varies in proportion to the amount of business done; the interest is a fixed charge, and repairs have to be made with almost equal rapidity, whether the material wears out, rusts out, or washes out. Now suppose a parallel line is built, and in order to secure some of the business offers to take it at 20 cents a ton. The old road must meet the reduction in order not to lose its business, even though the new figure does not leave it a fair profit on the investment; better a moderate profit than none at all. The new road reduces to 15 cents; so does the old road. A 15-cent rate will not pay interest unless there are new business conditions developed by it; but it will pay for repairs which otherwise would be a dead loss. The new road makes a still further reduction to 11 cents. This is better than nothing. If you take at 11 cents freight that costs you 25 cents to handle, you lose 14 cents on every ton you carry. If you refuse to take it at that rate, you lose 15 cents on every ton you do not carry. For your charges for interest and repairs run on, while the other road gets the business.

Under competition such cases are of constant occurrence, and almost as a matter of course when one of the roads is bankrupt. "Business at any price rather than no business at all" is the motto of such a road. It has long ceased to pay interest; it can pay for repairs by receiver's certificates; and it will take freight at almost any price that will pay for the men to load the goods and the coal to burn in the engine. And it is to be observed that when a competing road does not carry the war to this point, it is not a competitive rate. They may agree on a 25-cent rate, thinking it will be a reasonable and a paying one; but such a rate is actually determined by combination, even though they take cost of service into account. The theory that when payment falls below cost active competition will cease fails. This is because far below the point where it pays to do your own business it pays to steal business from another man. The influx of new capital will cease; but the fight

will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged. This is not confined to the railway business. Wherever there are large permanent investments of capital we see the same cause at work in the same way.

There is a marked difference between mercantile competition, such as was considered by those who established the old law of competition, and the competition of railroads or factories, such as we have been considering. In the former case its action is prompt and healthful, and does not go to extremes. If Grocer A sells goods below cost, Grocer B need not follow him, but simply stop selling for a time. For (1) This involves no great present loss to B. When his receipts stop, most of his expenses also stop. (2) It does involve present loss to A. If he is selling below cost, he loses more money, the more business he does. (3) It cannot continue indefinitely. If A returns to paying prices, B can again compete. If A continues to do business at a loss he will become bankrupt, and B will find the field clear again.

But if Railroad A reduces charges on competitive business, Railroad B must follow. (1) It involves a great present loss to stop. If a railroad's business shrinks to almost nothing, a large part of its expenses run on just the same. Interest charges accumulate; office expenses cannot be suddenly contracted; repairs do not stop when traffic sinks; for they are rendered necessary by weather as well as by wear. (2) If B abandons the business, A's reductions of rates will prove no loss. The expense of a large business is proportionately less than that of a small one. A rate which was below cost on 100,000 tons may be a paying one on 200,000. (3) Profitable or not, A's competition may be kept up indefinitely. The property may go into bankruptcy, but the railroad stays where it is. It only becomes a more reckless and irresponsible competitor.

The competition of different stores finds a natural limit. It brings rates down near to cost of service, and then stops. The competition of railroads or factories finds no such natural limit. Wherever there is a large permanent investment, and large fixed charges, competition brings rates down below cost of service. The competitive business gives no money to pay interest or repairs. Sometimes the money to pay for these things comes out of the pockets of other customers, who do not enjoy the benefit of the competition, and are charged much higher rates. Then we have the worst forms of discrimination. Sometimes the money cannot be obtained from any customers at all. Then we have bankruptcy, ruin to the investor, and—when these things happen on a large scale—a commercial crisis.

B. DISCRIMINATORY PRACTICES OF THE RAILROADS

177. Types of Railway Discrimination[4]

BY GEORGE H. LEWIS

Discriminations are principally of three kinds: first, discriminations between commodities, leading to freight classifications; second, discrimination between places, developing the "long-and-short-haul" problem; third, discrimination between individuals.

The first class of discriminations has gradually grown up from the practical experience of railroad men. In the earlier years of railroading the principles of classifying freight according to the character and value of the articles transported were little practiced. But it soon became evident that cheap and bulky articles must be carried at a low rate. But, if all rates were reduced to the standard of the cheaper goods, the road could not be maintained. To meet this exigency a charge of higher rates was made on the more costly commodities. In this way has gradually grown up the practice of freight classification. The principle underlying it is "charging what the traffic will bear." Proper classification alike benefits the roads and promotes the general good. But the principle is sometimes abused. For instance serious discrimination can be effected by placing in different classes two commodities physically alike or substitutable for each other.

The second class of discriminations is between places. It may happen that a director or prominent officer of a road is pecuniarily interested in one of two competing towns, and hence cheaper rates are accorded that place. In newer sections of the country, speculations in real estate by railroads, or by their officers, have often led to such discriminations.

More important are those involved in what is known as the "long and short haul." This is the practice of giving to certain points on a railroad line lower rates than are accorded to intermediate points which are, of course, nearer each other. To illustrate: The rates for a carload of freight from New York to points in Colorado are much higher than the rates on the same freight carried through the same town to San Francisco, more than a thousand miles farther. The regular traffic to San Francisco is about five-eighths of the rate to Ogden. In other words, the railroad charges for not hauling a carload of freight one thousand miles from Ogden to San Francisco.

[4]Adapted from *National Consolidation of the Railways in the United States,* 80–105. Copyright by Dodd, Mead & Co. (1893).

Another example will make even clearer the nature of this discrimination. A friend of mine a few years ago bought some anthracite coal in Chicago. He shipped it to Omaha, and then reshipped it to Grinnell, Iowa, 225 miles in an almost direct line toward Chicago. He was enabled thus to deliver the coal in that place cheaper than local coal dealers could supply it, although it had been hauled nearly three times the distance necessary to bring it to Grinnell directly.

Thus the excessively low rates made to certain competitive points give an overwhelming advantage to shippers located there, and, as a result, business men are attracted to these points in great numbers. Likewise business establishments are driven away from points having excessively high rates. To illustrate: A large factory for making barbed wire, located in the city of Des Moines, abandoned its buildings and transferred its establishment to Chicago, finding that it saved a large sum on every carload that was shipped, although the wire was mainly carried through its old location, 360 miles nearer the Pacific Coast than Chicago. Cases like this have been abundant throughout the West. The long-and-short-haul practice has been one of the factors which have taken people from the small towns and crowded them into great cities.

The third class of discriminations is that in favor of or against individuals. The principal device used in effecting this has been the well-known rebate. By this means favored shippers have been able to pay higher prices for grain or to sell flour for lower prices than their competitors and still grow rich. The most striking example is that of the Standard Oil Company, to which rebates amounting to $10,000,000 were paid in sixteen months. The company gained its immense wealth largely from a skilful use of this class of discriminations. But the immensity of this serves to conceal the incalculably larger aggregate amount of rebates and drawbacks paid in the cities and towns throughout the South and West. In a single town in Iowa judgments for nearly $40,000 were recovered against a single railroad for illegal discriminations in that town alone. It is estimated that the total amount of these discriminations in northwestern Iowa will reach $1,000,000. These discriminations have all been subsequent to the Interstate Commerce Act.

Old forms of discrimination are undoubtedly ceasing. But in the stress of competition which the system of private ownership of rival roads always necessitates, new devices and new schemes of evasion of the law are constantly arising in spite of the act.

178. Discriminations between Commodities[5]

BY ALBERT N. MERRITT

Many instances of sudden and arbitrary changes in the differentials upon competing classes of commodities might be given, and frequently the public has suffered severe loss in property values as the result of such actions. Take the case of the recent advance in the rate on corn-meal from Kansas points to Texas. For ten years the rate on corn-meal had been three cents higher than the rate on corn. On the basis of this differential the Kansas millers had found themselves able to compete with the Texas millers, and a large portion of the corn-meal used in Texas was ground in Kansas. In January, 1905, at the instigation of the millers of Texas, the Railroad Commission of that state announced a hearing for the purpose of determining whether intrastate grain rates should be reduced. In order to prevent this, the railroads went to the millers and made a bargain with them. If the millers would agree to drop their complaint before the Texas Commission, the railroads, on their part, would advance the rate on corn-meal so as to exclude the Kansas millers from the Texas market. The bargain was carried out to the letter. The millers failed to appear before the Commission upon the date set for the hearing, and the grain rates within the state were not reduced, while on the 19th of February, the railroads fulfilled their part of the contract by advancing the rate on corn-meal by an average of 5½ cents per 100 lbs., without any corresponding increase in the rate on corn. The result was that the Kansas millers were practically prohibited from shipping any corn-meal into the State of Texas. Thus the principal market of a very important industry of Kansas was swept away by the stroke of a pen. Not only will the Kansas millers lose, but the Texas consumers will lose also. Texas is unsuited for carrying on the milling industry. Mills were introduced into Texas more than twenty years ago. Yet the Kansas mills, handicapped as they were by a differential of three cents per 100 lbs., found themselves able to compete with the millers of Texas in supplying that market. The Texas millers have now secured the monopoly which they desired, and the Texas consumers will pay for it in the price of meal.

On one occasion the railroads threatened to destroy the whole export flour industry of the Northwest. The rates on wheat and flour had been the same for many years. Suddenly the roads advanced the rate on flour till they exceeded those on wheat by from

[5]Adapted from *Federal Regulation of Railroad Rates*, 34–36. Copyright by Hart, Schaffner & Marx (1907).

four to eleven cents per 100 lbs. The result was that the exports of flour instantly fell off as compared with those of wheat. As long as these rates prevailed, the Western millers were entirely excluded from any share in the export flour trade. Not only did the milling industry of that section suffer, but also the resources of the country were weakened. Experts have declared that a most important factor in maintaining the fertility of the soil is the consumption of the by-products of the grain near the point of production. But if the wheat is exported instead of being ground in the Northwest, such products as the bran and the shorts are consumed in Europe instead of in this country, as they would be if the wheat were ground at home.

Other cases of unjust discrimination between competing classes of commodities have been of frequent occurrence. Thus two kinds of soap, though substantially similar in price, bulk, and value, were carried at different rates. In another case, common soap was carried at 33 cents per 100 lbs., while 73 cents was charged for Pearline, a competitor of soap.

179. Discriminations in the Transportation of Oil[6]

Discriminations in the transportation of oil embrace a variety of forms, the most important of which are enumerated below.

I. The most important form of discrimination is the use of secret or semisecret rates. The Standard Oil Company has repeatedly asserted that since the passage of the Interstate Commerce Act in 1887 it has received no rebate. The investigations of the Bureau have discovered no rebates in this technical sense. But discriminations fully as effective have been made in behalf of the Standard by means of secret rates concealed through other methods. The secret rates enjoyed by the Standard have almost all been made from points where the company is the only shipper. In such a case, however, it is just as discriminatory and just as injurious to the interests of competitors as if they were charged higher rates for the same hauls. The secrecy leaves the independent refiner in the dark as to the most important factor affecting competition in common markets. To consummate the unfairness it is obviously not necessary that the independent should actually ship at the higher rate while the Standard ships at the lower. The evil is accomplished even more effectively if the existence of the lower rate allows the Standard to get to a common market while the rate quoted to the independent is so high that he is absolutely prevented from shipping

[6]Adapted from *Report of the Commissioner of Corporations on the Transportation of Petroleum*, 1–31 (1906).

there. The secret rates already discovered by the Bureau represent a direct saving to the Standard of many hundreds of thousands of dollars annually. As a result the Standard has been able to sell oil, where necessary to meet competition, at prices which were profitable to itself, but which left no profit to a competitor. Having thus destroyed competition in large sections of the country, the Standard there charges prices several cents above the cost of manufacture. Thus the Standard has been able to obtain monopoly profits of large amount.

Another device has been the use of secret state rates in combination with interstate rates, more or less open in character, to give a total rate much less than the through published rate from the initial point of shipment to the final destination. There are other cases in which interstate shipments of oil have been made on a single through rate which has not been published or filed. There is a further important class of cases where rates, technically filed in compliance with law, are not made effectively public, and cannot be ascertained by shippers with the exercise of reasonable diligence. There are two sources of information for the ordinary shipper: inquiry at the offices of the railroad company, and the files of the Interstate Commerce Commission. The local freight agent cannot be expected to have knowledge of all possible combinations of rates; or it may be the wilful intent of the railroad company to withhold information. The mass of tariffs filed by the railways with the Interstate Commerce Commission presents a problem so great as to be necessarily insoluble by the ordinary shipper. The matter is complicated by deliberate action on the part of the railroads. Tariffs are made to read from unexpected and improbable points, naming rates which conflict with those conspicuously named from the neighboring points as to which inquiry would ordinarily be made. In other cases unexpected and improbable combinations of local rates are made which are lower than the conspicuously published through rates from the point of origin to the point of destination. Circuitous and unusual routes are selected in some cases in order to make up these combinations. The concealment is made the more effective by the frequent republication of the higher rates by the expected routes, and the use of lower rates by improbable routes.

For the purpose of more effectively concealing the secret rates given the Standard, railroads have frequently used peculiar methods of billing and accounting. In some cases oil has been "blind billed," that is to say, the way-bills have been made out showing the kind of product transported and its weight, but without showing, as is the usual custom, any freight rate or the amount of freight

charges. In such instances, the collection of freight is ordinarily made, not by the local agent, but through the central office, by the presentation to the Standard of a summary bill showing the amount of freight charges at the secret rate. In other instances the oil is handled in the same manner as other shipments are ordinarily handled, the secret rate being used directly, instead of the published rate, in the way-bills and records of the railroads, and the collection of charges being made in the ordinary manner through the local freight agent. Of course there is danger in this case that the rate will leak out.

II. Secret discriminations are hardly more important than open discriminations in rates. Almost everywhere the rates from the shipping points used exclusively by the Standard are relatively lower than the rates from the shipping points of its competitors. Rates have been made low to let the Standard into markets, or they have been made high to keep their competitors out of markets. Trifling differences in distances have been made an excuse for large differences in rates favorable to the Standard, while large differences in distances are ignored where they are against the Standard. Sometimes connecting roads make through rates on oil which are lower than the combination of lower local rates; sometimes they refuse to do so; but in either case their policy favors the Standard.

III. There are in many parts of the country important discriminations with respect to the classification of petroleum and the rules under which it is transported. In many cases there are unreasonable differences between the rates on oil in carloads and less than carloads. There are also unreasonable rules with respect to charges on oil in different kinds of containers; and with respect to shipments of mixed carloads of different kinds of oil, rules which have been applied against independent refiners, but sometimes not against the Standard.

An important instance of discrimination in classification is found with respect to the arbitrary rates fixed by the railroads in computing freight charges on the shipments of Kansas crude oil and the products derived therefrom. The eastern railroads have for years fixed the arbitrary weight on crude oil and all of its products alike at 6.4 pounds per gallon as a basis of freight charges. In 1902 the railroads in the West raised the arbitrary weight on Kansas crude oil to 7.4 pounds, while continuing to carry all products of the refinery at 6.4 pounds. Fuel oil, which is the residuum of the refining process, the railroads have carried on the basis of 6.4 pounds, although it actually weighs 7.6 pounds. This discrimination has tended seriously to injure the Kansas crude-oil producer.

IV. Still another discrimination is practiced in the treatment of private tank cars. Throughout the country the Union Tank Line Company, a Standard concern, obtains three-fourths cent per car per mile as rental on its cylinder tank cars, whether loaded or empty. Owing to the relatively slow movement of tank cars, this allowance does not appear to result in an excessive profit. In most sections of the country all refiners operating tank cars receive equal treatment. On the Pacific Coast, however, most independent refiners receive only six-tenths cent per mile, and this on the loaded movement only.

180. Recent Forms of Railway Discrimination[7]

BY WILLIAM Z. RIPLEY

With the passage of time, and especially since 1896, new and even more elaborate schemes for rebating have come to light. One of the most ingenious, which was discovered about 1904 to be very widespread, was the use of terminal or spur track railway companies. In Hutchinson, Kansas, for example, were salt works having a capacity of some 6,000 barrels a day. Two railways were available for shipments. A new company was incorporated, all its stock being held by the salt works owners, which constructed sidings to both railroad lines. The spur track was less than a mile long and cost only about $8,000 to build. But the company was chartered as the Hutchinson & Arkansas River Railroad. Its officers were the owners of the salt mills. It owned neither engines nor cars. Yet it entered into a traffic agreement with the Atchison road for a division of the through rate to many important points, its share being about twenty-five per cent.

Obviously, rebates assuming the above-described form are open only to very large shippers, to whom it is worth while to incur the considerable expense. The International Harvester Company at Chicago had for years performed much of its own terminal service; and until 1904 was allowed as high as $3.50 per car for switching charges by connecting railroads. It then incorporated the Illinois Northern Railroad, which was promptly conceded twenty per cent of all through rates, with the Missouri river rate as a maximum. On this traffic it would be allowed as high as $12 per car, instead of $3.50 as before.

[7]Adapted from *Railroads, Rates and Regulation,* 195–209. Copyright by Longmans, Green & Co. (1912).

The so-called "midnight tariff" was a strictly legal way of conferring favors upon certain shippers. It was much in evidence during the grain wars between lines serving the Gulf ports about 1903. And it seems to have been a device used at times all over the country. A traffic manager wishing to steal all the business of a large shipper from some competing road, and to build himself up at the expense of his rivals, secretly agrees to put into effect a low rate on a given date. The shipper then enters into contracts calling for perhaps several hundred car-loads of grain to be delivered at that time. This reduction is publicly filed, perhaps thirty days in advance, with the Interstate Commerce Commission at Washington. But who is to discover it, in the great medley of new tariffs placed on file every day? Yet this is not all. A second tariff, restoring the full rate, is also filed to take effect very shortly—perhaps only a day—after the reduction occurs. All these are public, and open to all shippers alike. But only the one who was forewarned is able to take advantage of them.

An entirely different plan of rebating—and a most effective one—has to do with apparently unrelated commercial transactions. Many shippers are large sellers of supplies to the railroad. How easy then to make a concession in rates to an oil refinery, for example, by paying a little extra for the lubricating oil bought from a subsidiary concern. The Federal authorities in recent years, and especially in connection with the prosecution of the Standard Oil Company in 1908-1911, have discovered the most extraordinary variations in the prices paid by railroads for supplies. Independent concerns were often not allowed to compete in the sale of lubricants at all. It would be difficult to prove any connection between so widely separate sets of dealings; and yet it is clear that rebates are often given in this way. Or even more fruitful as an expedient, especially in these later days, when rebating is a serious offence, why not confer a favor by extra liberality in allowances for damages to goods in transit?

Personal discrimination may be as effective upon competition through denial of facilities to some shippers as through conferring of special favors upon others. Practices of this sort have been quite common in the coal business, especially in the matter of furnishing or refusing to furnish an ample supply of cars or suitable spur tracks to mines. In 1906 came the startling revelations upon the Pennsylvania Railroad as to the practice of discrimination in furnishing cars to coal mines. A comprehensive investigation by the company itself resulted in the discharge of a number of high officials. It appeared, for example, that the assistant to President

Cassatt had acquired $307,000 in stock of coal companies without cost; that a trainmaster for $500 had purchased coal mine stock which yielded an annual income of $30,000; and that one road foreman was given three hundred shares of the same company stock for nothing. In all these cases the object was to secure not only an ample supply of cars for the favored companies, but perhaps even the denial of suitable service to troublesome competitors.

Yet other means of favoring large shippers at the expense of small ones are almost impossible to eradicate. The record of the vigorous prosecutions against rebating, under the Elkins law, affords conclusive evidences not only as to the widespread extent of the evil, but as to its identification with many of the large industrial combinations. There was collected in fines for rebating between October, 1905, and March, 1907, the sum of $586,000. Several men were sent to jail, for from three to six months. Among the trusts implicated were the beef packers, who have been indefatigable in concocting rebating devices, the tin plate combination, and, most notable of all, the American Sugar Refining Company. Nearly $300,000 in fines was imposed upon this concern alone. The secret allowances in these cases were most ingeniously arranged. Some were "refund of terminal charges;" some were "lighterage demurrage;" some were allowances for damages. Many were paid by drafts instead of checks, so as to preclude identification of individuals; some were by special bank account; but the sums involved were very large.

The following quotation from a letter from an agent of the sugar trust accompanying a claim for overcharge of $6,866 on shipments of syrup, introduced in evidence in one of these cases, aptly describes the situation, both then, now, and always. "We hope to devise some means to enable us to conduct our freight matters with the transportation companies satisfactorily even under the new conditions imposed by the Elkins bill; but there may be some cases that cannot be taken care of, in the event of which we will, like all other shippers, have to take our medicine and look pleasant." The Interstate Commerce Commission reported as to the conditions in 1908 that "many shippers still enjoy illegal advantages."

Thus the rebate as an evil in transportation, even since amendment of the law in 1906-1910, while under control, is still far from being eradicated. Favoritism lurks in every covert, assuming almost every hue and form. Practices which outwardly appear to be necessary and legitimate, have been shown to conceal special favors of a substantial sort.

C. THE NATURE AND EXTENT OF REGULATION

181. Complaints against the Railroad System[8]

1. That local rates were unreasonably high, compared with through rates.

2. That both local and through rates were unreasonably high at noncompeting points, either from the absence of competition or in consequence of pooling agreements that restricted its operation.

3. That rates were established without apparent regard to the actual cost of the service performed, and are based largely on "what the traffic will bear."

4. That unjustifiable discriminations were constantly made between individuals in the rates charged for like service under similar circumstances.

5. That improper discriminations were made between articles of freight and branches of business of a like character, and between different quantities of the same class of freight.

6. That unreasonable discriminations were made between localities similarly situated.

7. That the effect of the prevailing policy of railroad management was, by an elaborate system of secret special rates, rebates, drawbacks and concessions, to foster monopoly, to enrich favored shippers, and to prevent free competition in many lines of trade in which the item of transportation is an important factor.

8. That such favoritism and secrecy introduced an element of uncertainty into legitimate business that greatly retarded the development of our industries and commerce.

9. That the secret cutting of rates and the sudden fluctuations that constantly took place were demoralizing to all business except that of a purely speculative character, and frequently occasioned great injustice and heavy losses.

10. That, in the absence of national and uniform legislation, the railroads were able, by various devices, to avoid their responsibility as carriers, especially on shipments over more than one road, or from one State to another, and that shippers found great difficulty in recovering damages for loss of property or for injury thereto.

11. That railroads refused to be bound by their own contracts, and arbitrarily collected large sums in the shape of overcharges, in addition to the rates agreed upon at the time of shipment.

[8]Adapted from the *Report of the Senate Select* (Cullom) *Committee on Interstate Commerce,* I, 180–181 (1886).

12. That railroads often refused to recognize or be responsible for acts of dishonest agents acting under their authority.

13. That the common law failed to afford a remedy for such grievances and that in cases of dispute the shipper was compelled to submit to the decision of the railroad manager or pool commissioner, or run the risk of incurring further losses by greater discriminations.

14. That the differences in the classifications in use in various parts of the country, and sometimes for shipments over the same roads in different directions, were a fruitful source of misunderstandings, and were often made a means of extortion.

15. That a privileged class was created by the granting of passes, and that the cost of the passenger service was largely increased by the extent of this abuse.

16. That the capitalization and bonded indebtedness of the roads largely exceeded the actual cost of their construction or their present value, and that unreasonable rates were charged in the effort to pay dividends on watered stock and interest on bonds improperly issued.

17. That railroad corporations had improperly engaged in lines of business entirely distinct from that of transportation, and that undue advantages had been afforded to business enterprises in which railroad officials were interested.

18. That the management of the railroad business was extravagant and wasteful, and that a heedless tax was imposed upon the shipping and traveling public by the unnecessary expenditure of large sums in the maintenance of a costly force of agents engaged in a reckless strife for competitive business.

182. The Provisions of the Interstate Commerce Act[9]

BY LOGAN G. MC PHERSON

The Interstate Commerce Act, taking effect April 5, 1887, practically applied the principles of the common law which inhere in the unlimited jurisdiction of the State courts to the regulation of interstate traffic by the Federal courts. It provided:

First—That charges for transportation must be reasonable and just; prohibiting any unjust discrimination by special rates, rebates, or other devices, and any undue or unreasonable preferences;

[9]Adapted from *The Working of the Railroads*, 248–250. Copyright by Henry Holt & Co. (1907).

Second—That there should not be a greater charge for a short haul than for a long haul over the same line in the same direction under substantially similar circumstances and conditions;

Third—Prohibited the pooling of freights and the division of earnings;

Fourth—Prohibited any device to prevent the continuous carriage of freights;

Fifth—Provided for the publicity and filing with the Commissioner of all tariffs;

Sixth—The Interstate Commerce Commission created by the Act is given power to investigate complaints against carriers and to make reports of its investigation in writing;

Seventh—The Interstate Commerce Commission is authorized, in case it finds that the carrier has violated the law, to order it to desist and make reparation for injury done. In case these orders are not obeyed the Commission is empowered to proceed in a summary way to have the Circuit Court of the United States enforce them.

183. The Provisions of the Elkins Act[10]

The Elkins law, approved February 19, 1903, is an amendment to the Act to Regulate Commerce, and the only important amendment since 1889. The former act is directed against wrongdoing both in the fixing of tariff rates and in the failure to apply them when they have been fixed. Broadly speaking it is the latter class of offenses only which are affected by the recent legislation. Its provisions are designed more effectually to reach infractions of law such as the payment of rebates and kindred practices.

In the first place it makes the railroad corporation itself liable to prosecution in all cases where its officers or agents are liable under the former law. Such officers and agents continue to be liable as heretofore, but this liability is now extended to the corporation which they represent.

The amended law has abolished the penalty of imprisonment, and the only punishment now provided is the imposition of fines. As the corporation cannot be imprisoned or otherwise punished than by money penalties, it was deemed expedient that no greater punishment be visited upon the offending officer or agent.

Under the former law it was not sufficient to show that a secret and preferential rate had been allowed in a particular case; there had to be further proof of the payment of higher charges by some

[10]Adapted from the *Seventeenth Annual Report of the Interstate Commerce Commission,* 8–10 (1903).

other person on like and contemporaneous shipments. The result was to render successful prosecutions almost impossible. This defect seems to have been remedied. The new law in most explicit terms makes the published tariff the standard of lawfulness, and any departure therefrom is declared to be a misdemeanor. It is sufficient now to show that a lower rate than that named in the tariff has been accorded.

A further provision of the law makes it lawful to include as parties, in addition to the carrier complained of, all persons interested in or affected by the matters involved in the proceeding. Under the former law carriers only could be made parties defendant; under the amended law shippers may also be included.

Another provision confers jurisdiction upon the circuit courts of the United States to restrain departure from published rates, or "any discriminations forbidden by law," by writ of injunction, or by other appropriate process.

184. The Provisions of the Hepburn Bill[11]

BY LOGAN G. MC PHERSON

The Hepburn Bill took effect on August 28, 1906. The bill provides:

(a) That as "common carriers" under the Interstate Commerce Law shall be included companies transporting oil by pipe lines, express companies, sleeping car companies, all switches, tracks, terminal facilities, and that "transportation" under the law shall include all cars regardless of their ownership, and all service in transit.

(b) Prohibits the issue of passes, with certain specified exceptions that cover mainly employes, fixing a penalty in case of violation that shall apply to both the giver and the recipient.

(c) Makes it unlawful after May 1st, 1908, for any railroad company to transport for sale any commodities in which it may have a proprietary interest, except lumber and its products.

(d) Provides that a common carrier shall provide, when practicable, and upon reasonable terms, a switch connection for any applicant who shall furnish sufficient business to justify its operation.

(e) Makes more explicit the specification as to the filing of tariffs, especially providing for the posting and filing of through tariffs; fixing penalty for violation.

[11]Adapted from *The Working of the Railroads*, 255–259. Copyright by Henry Holt & Co. (1907).

(f) Provides that "every person or corporation, whether carrier or shipper, who shall knowingly offer, grant, give or solicit, or accept, or receive rebates, concession, or discrimination, shall be deemed guilty of a misdemeanor, and on conviction thereof shall be punished by a fine of not less than one thousand or more than twenty thousand dollars." Moreover, any person, whether officer or director, agent or *employe,* convicted of such misdemeanor, "shall be liable to imprisonment in the penitentiary for a term not exceeding two years, or both fine and imprisonment in the discretion of the court." In addition, the acceptor of any rebate shall forfeit to the United States three times the amount of the rebate.

(g) Provides for the publication of the reports and the decisions of the Commission and their acceptance as evidence.

(h) Empowers the Commission, if upon complaint it finds that a rate, or any regulation or practice affecting a rate, is "Unjust or unreasonable, or unjustly discriminatory, or unduly preferential or prejudicial," to determine and prescribe a maximum rate to be charged thereafter and modify the regulation or practice pertaining thereto.

(i) Empowers the Commission to award damages against a carrier in favor of a complainant.

(j) Provides for forfeit to the United States, in case of neglect to obey an order of the Commission, in the sum of five thousand dollars for each offense, each violation and each day of its continuance to be deemed a separate offense.

(k) Empowers the Commission to apply to a circuit court for the enforcement of its order, other than for the payment of money; for the appeal by either party to the Supreme Court of the United States; and that no order of the Commission shall be suspended or restrained, except on hearing, after not less than five days' notice to the Commission.

(l) Provides for the rehearing by the Commission, upon application, at its discretion.

(m) Authorizes the Commission to require annual reports from all common carriers, that shall contain specified information; to prescribe the form of any and all accounts, records and memoranda to be kept by carriers, making it unlawful for the carriers to keep any other accounts, records, or memoranda than those prescribed and approved by the Commission; provides that all accounts of the carriers shall be open to the inspection of the special agents, or examiners employed by the Commission.

(n) Provides that a common carrier issuing a through bill of lading shall be responsible for loss, damage or injury to the prop-

erty covered thereby upon the lines of any company over which it may pass, leaving it to the line issuing the way-bill to gain recovery from another line upon which the loss, damage, or injury may have occurred.

(o) Enlarges the Interstate Commerce Commission from five to seven members, with terms of seven years, increasing the salary from seven thousand five hundred to ten thousand dollars per annum.

185. The Mann-Elkins Act[12]

The Interstate Commerce Bill, as it was reported out of conference on June 14, contains the following provisions:

1. It creates a court of commerce for the enforcement of orders of the Interstate Commerce Commission.[13]

2. It provides that no railroad shall charge any greater compensation for a shorter than for a longer haul, except in cases where such action is authorized after investigation by the Interstate Commerce Commission.

3. It provides that railroads shall be required to state in writing the rate or charge applicable to a described shipment.

4. The Interstate Commerce Commission upon complaint is authorized to determine and prescribe the just and reasonable individual or joint rate as the maximum to be charged and to specify the individual or joint classification, regulation, or practice which it deems to be fair, just, and reasonable.

5. The commission may suspend the operation of any new rate, classification, regulation, or practice for a period not exceeding 120 days, and extend the time of suspension for a further period of six months, after which time the new rate, classification, regulation or practice will become effective unless the commission orders to the contrary.

6. The commission may establish through routes and joint classifications and joint rates as to the maximum to be charged whenever the carriers themselves refuse to do so.

7. The right is given to the shipper to designate one of several through routes by which his property shall be transported to its destination.

8. Every failure to obey an order of the commission shall be punished by a fine of $5,000.

[12]Adapted from articles in the *Railway and Engineering Review,* L, 546–547, 587 (1910).

[13]This court was practically abolished in 1912 by the failure of Congress to make financial provision for its support.

9. Copies of classification, tariffs, etc., furnished to the commission shall be public records.

10. Authority is granted for the appointment of a commission to report upon the advisability of the physical valuation of roads and the control of railroad capitalization.

D. ASPECTS OF RATE-MAKING

186. Freight Classification[14]

BY WILLIAM Z. RIPLEY

Imagine the Encyclopedia Britannica, a Chicago mail-order catalogue, and a United States protective tariff law blended in a single volume, and you have a freight classification as it exists in the United States at the present time. Such a classification is, first of all, a list of every possible commodity which may move by rail, from Academy or Artist's Board and Accoutrements to Xylophones and Zylonite. In this list one finds Algarovilla, Bagasse, "Pie Crust, Prepared;" Artificial Hams, Cattle Tails and Wombat Skins; Wings, Crutches, Cradles, Baby Jumpers and all; together with Shoo Flies and Grave Vaults. Everything above, on, or under the earth will be found listed in such a volume. To grade justly all these commodities is obviously a task of the utmost nicety. A few of the delicate questions which have puzzled the Interstate Commerce Commission may give some idea of the complexity of the problem. Shall cow peas pay freight as "vegetables, N. O. S., dried or evaporated," or as "fertilizer"—being an active agent in soil regeneration? Are "iron-handled bristle shoe-blacking daubers" machinery or toilet appliances? Are patent medicines distinguishable, for purposes of transportation, from other alcoholic beverages used as tonics? What is the difference, as regards rail carriage, between a percolator and an every-day coffee pot? Are Grandpa's Wonder Soap and Pearline to be put in different classes, according to their uses or their market price? When is a boiler not a boiler? If it be used for heating purposes rather than steam generation, why is it not a stove? What is the difference between raisins and other dried fruits, unless perchance the carrier has not yet established one industry while another is already firmly rooted and safe against competition?

The classification of all these articles is a factor of primary importance in the making of freight rates both from a public and

[14]Adapted from *Railroads, Rates and Regulation*, 297–304. Copyright by Longmans, Green & Co. (1912).

private point of view. Its public importance has not been fully appreciated until recently as affecting the general level of railway charges. So little was its significance understood, that supervision and control of classification were not apparently contemplated by the original Act to Regulate Commerce of 1887. The anomaly existed for many years of a grant of power intended to regulate freight rates, which, at the same time, omitted provision for control over a fundamentally important element in their make-up. Control over it has now been assured beyond possibility of dispute.

The freight rate upon a particular commodity between any given points is compounded of two separate and distinct factors: one having to do with the nature of the haul, the other with the nature of the goods themselves. Two distinct publications must be consulted in order to determine the actual charge. Although both of them usually bear the name of the railway and are issued over its signature, they emanate, nevertheless, from entirely different sources. The first of these is known as the Freight Tariff. It specifies rates in cents per hundred pounds for a number of different classes of freight, numerically designated, between all the places upon each line or its connections. But it does not mention specific commodities. The second publication which must be consulted supplies this defect. This is known as the Classification. Its function is to group all articles more or less alike in character, so far as they affect transportation cost, or are affected in value by carriage from place to place. These groups correspond to the several numerical classes already named in the freight tariff. Thus dry goods or boots and shoes are designated as first class. It thus appears, as has been said, that a freight rate is made up of two distinct elements equal in importance. The first is the charge corresponding to the distance; the other is the charge as determined by the character of the goods. Consequently, a variation in either one of the two would result in changing the final rate as compounded.

Freight tariffs and classifications are as distinct and independent in source as they are in nature. Tariffs are issued by each railway, by and for itself alone and upon its sole authority. Classifications, on the other hand, do not originate with particular railways at all; but are issued for them by coöperative bodies, known as classification committees. These committees are composed of representatives from all the carriers operating within certain designated territories. In other words, the United States is apportioned among a number of committees, to each of which is delegated, by the carriers concerned, the power over classification. New editions of

these classifications are published from time to time as called for by additions or amendments, the latest, of course, superseding all earlier ones. Thirty-seven such issues have already appeared in series in trunk lines and southern territory, while fifty have been put forth in western territory, since the practice was standardized in 1888.

187. Competitive Factors in Rate-Making[15]

BY EMORY R. JOHNSON AND GROVER C. HUEBNER

Railroad rates are, to a large extent, the resultant of competitive forces. In part the competition is of carriers with each other for traffic free to move by more than one line; and, in a still larger way, the competition is between industries and among rival producing or trading centers and sections. If a railroad company is to prosper, the industries along its lines, the section of country it serves, and the markets it reaches must flourish.

In determining the rates which the traffic will bear, the General Freight Agent is influenced by many factors. The strongest force is that of competition among markets, or "of interregional, industrial competition." The asphalt of California, for example, competes against that of Texas, the West Indies and South America, in American cities, and railway rates on the California product must be fixed so as to give a wide sale. Likewise the rates on cotton goods from southern mills are made so as to allow them to find a market side by side with the output of New England mills. Innumerable instances of interregional competition in manufacturing might be cited. The finished product must be carried to market in rivalry with similar goods from other sections, while raw products and coal must be hauled to the factories at rates which will allow all industries to thrive. Were there no indirect bidding of one railway for the traffic of another, this all-pervading competition between producing regions would still exert a constant regulative pressure upon the level of rates.

Among the markets themselves the same forces of commercial competition are effective. The Gulf ports compete with the North Atlantic ports for the grain exports of the West, and the North Atlantic ports strive with each other for this trade. The Gulf ports struggle with those of the South Atlantic for the cotton of the interior; New Orleans is the rival of Galveston.

[15]Adapted from *Railroad Traffic and Rates,* I, 351–359. Copyright by D. Appleton & Co. (1911).

It is chiefly because of the force of commercial competition that freight rates are to a large extent interdependent. To change an unimportant rate may require the modification of but a few others, but to raise or lower the rate on wheat from Chicago to New York may require the readjustment of many other charges. The rate structure, like a spider's web, is delicately interwoven.

Rival markets and competing producing sections, no matter where located, will be kept on a common level, if it is possible for the carriers to so place them. At the present time the railways as well as the public realize that artificial limits must often be placed upon interregional competition.

The efforts of rival railways to secure traffic free to move by more than one line is a second force influencing the rate maker. Unlike the commercial competition just mentioned, it has become less instead of more powerful; because, as time goes on, it is more largely regulated by the consolidation of competing lines, or by traffic associations, community-of-interest arrangements, and informal mutual understandings. These are the means whereby rival railways have sought to substitute coöperation for unrestrained competition. This fact is well illustrated by the perennial strife of the trunk lines over the relative rates to be accorded North Atlantic seaports on a traffic to and from the central West.

The fact that the competition among railroads is in service rather than on the basis of secret rates enables the railways to regulate their struggles so as to prevent most, if not all, rate wars; but regulated competition that stops short of open war may not only be perpetual, but may also be keen, and may be effective in determining both the charges on particular commodities and the general level of rates. From the public point of view, this interrailway competition may not be an adequate regulator of rates; indeed, it may, like interregional industrial competition, lead to arbitrary discriminations that require correction by public authority; but this does not prove the absence or impotency of competition among railroads to secure traffic free to move by more than one route.

The influence of water competition upon the policy and practice of railway rate making, though less general and less controlling now than formerly, is still a factor of much effect in several parts of the country; and the practical certainty of a general improvement of the inland waterways of the United States indicates that water competition will be more potent in the future than it is at the present time.

The rail charges into and out of the Southern States and the system of rates that has developed in that section, are largely influenced by the competitive rates and service of the coastwise vessels. Likewise the rates on the transcontinental traffic moving west and east between the Atlantic and Pacific sections of the United States are absolutely controlled by the competition of the water routes via Panama and the Isthmus of Tehuantepec. Moreover, it should be specially noted that water competition not only controls certain specific railway charges, but also exerts much influence upon the general systems of rate making prevailing in different sections of the country.

Railway rates in the future will probably be increasingly subject to the regulation of waterway competition.

188. The Futility of Costs as a Basis for Rates[16]

BY SYDNEY CHARLES WILLIAMS

The theory of price-determination according to cost of production is usually interpreted to mean that the price of each unit is determined ultimately by the cost of production of that unit. Where the unit is large and simple, *e. g.*, in the case of a boat constructed entirely by hand by one man, the only items of expense will be the material, the man's labour, and some trifling sum to cover the cost and wear and tear of his tools; and the price he will ask will be determined accordingly. Modern industrial conditions, however, are much more complicated. A factory or workshop will turn out very many units of many different kinds; involving raw material of varying values, processes of all kinds, simple and elaborate, machinery and labour of many sorts, and each unit of each kind must bear some proportion of those general charges which cannot be attributed to any one class of product, but must be borne by the whole.

Now to what extent is it the case that the price charged for each unit of railway transport is determined by the cost of producing that unit? At first sight it may seem a very simple and satisfactory method of arriving at railway charges. The commodity produced is one—and its cost per unit can be arrived at, and the price to be charged fixed accordingly. But this seeming simplicity is very far from being present in reality. For when we begin to think of concrete instances of railway transport we see that they include commodities very diverse indeed. There are in the first place very

[16]Adapted from *The Economics of Railway Transport,* 189–198 (1909).

many kinds of haulage, pure and simple—for long distances, medium distances, and short distances, with a cost per mile varying according to the distance; there is haulage of all kinds of goods, from coal and limestone to fruit, flowers, dynamite, and cigars, and of all manner of passengers, from a Royal party in a special train, or first-class express traffic to the Scotch moors, to workmen's journeys at 12 miles a penny or half-day seaside trips at similar low charges; there are also many subsidiary services sometimes given, sometimes expressly withheld—cartage, delivery, liability for damage or loss, refrigeration, use of company's wagons, express speed or slow travel, and so forth. In short, we see that the use of the purely abstract word "transport" gives a quite misleading air of simplicity to what is really a congeries of operations of the most diverse kind. Railways in fact produce a far greater variety of commodities than most industrial undertakings.

But it may be urged, this does not demonstrate the impossibility of basing your railway charges on respective costs of production. This may be done in one or other of two ways. The first and most obvious method is to classify your different services and apportion to each the peculiar expenses connected with it. Then take the whole of the remaining expenditure of a general kind and apportion that among the different services according to their respective prime costs. You will now know the expenditure involved by each service, and as you know the extent of this traffic you will be able to fix a fair and reasonable charge which will just give you your expenditure with a reasonable margin of profit.

If the matter is so simple it should be child's work to apply it to the first great division of railway work, that between passenger and goods traffic. The simplest and clearest subdivision of railway working expenditure is as follows: General Charges, Ways and Works, Rolling-Stock, Traffic Department Expenditure.

Now of all these a good deal is not merely independent of any particular kind of traffic but is independent of traffic altogether. Among such heads of expenditure are directors' fees, the salaries of the managing and legal staff, the rates and taxes paid, the greater part of the cost of maintenance of way and works, and some part of the traffic working expenses. These items clearly cannot be directly connected with the respective amounts of goods or passenger traffic. The cost of passenger and goods locomotives and rolling-stock can, however, be so allocated; so also the cost of their respective train-staffs; and some part of the expenditure of buildings. Indeed, the very variety of methods adopted to secure this allocation themselves testify to the difficulty of the operation;

train-mileage has been tried and abandoned, working engine hours are believed in by some, but the only unanimity among experts is as to the caution with which the figures arrived at must be viewed and utilized.

The varying speeds, the different kinds of accommodation, the great variety in the number and complexity of the services rendered, the different sizes of consignments, the different distances for which, the different directions in which, and the different times at which they travel—all these mean some difference in cost; but since this cost is made up of so many countless items, who can undertake to reduce it to a definite schedule of fair prices, however long and complicated? And to achieve a result of even useful accuracy when these difficulties are borne in mind, and at the same time it is remembered that the schedule must be simple, uniform, impartial, semi-permanent, and, moreover, must be known before, not after the consignment has been handled—is, it will be recognized, indeed a hopeless task.

But it may be claimed that there is an alternative method with which no such accuracy is expected or desired. All that need be done is to take the number of units of work done, the passenger-miles and ton-miles, and dividing these by the aggregate expenses, so obtain an average figure which will give a working basis for all rates. But even for this less ambitious project there are insuperable difficulties. The average ton-mile will link together such dissimilar units as one ton of coal out of a train load of 800 tons carried, say, 200 miles without a stop and with no auxiliary services, and a ton of cream cheese carried in small consignments over a few miles with many subsidiary services, collection, delivery, packing, weighing, and so forth. The respective rates charged will be as dissimilar as the services rendered. The coal pays a very low rate, but the size, regularity, and easy handling of the traffic make it most acceptable; the cheese traffic pays a high rate, but not too high in view of the care and work it involves. Its very small and variable dimensions, and the high value of the cheese, make the cost of the transit an appreciable item, besides say the profits of the retail trader, and an addition to the price which the well-to-do consumer willingly if unconsciously pays. Apply such an average figure in defiance of all these differing conditions, and the result will only be to kill the low grade traffic and to let off too lightly the high grade traffic, thereby seriously impairing the prosperity of the railway and ultimately injuring the trading public which needs its services.

189. Charging What the Traffic Will Bear[17]

BY W. M. ACKWORTH

The phrase "charging what the traffic will bear" has, for some not very obvious reason, undoubtedly acquired an ill repute. On the face of it, it surely seems to represent a principle, not of extortion, but of moderation. To charge what the traffic can bear is, in other words, not to charge what the traffic cannot bear. Yet the phrase is commonly understood quite differently. It has been asserted that railway managers claim to estimate for themselves production cost at *A* and selling price at *B*, and to appropriate as railway rate the entire difference. The truth is that, whatever rash statements have been made by individual railway men under peculiar conditions, no railway administration has ever acted on any such principle.

The real meaning of the phrase is that within limits—the supreme limit of what any particular traffic can afford to pay, and the inferior limit of what the railroad can afford to carry it for—railway charges for different categories of traffic are fixed, not according to an estimated cost of service, but roughly on the principle of equality of sacrifice by the payer. So regarded, "what the traffic will bear" is a principle, not of extortion, but of equitable concession to the weaker members of the community. Had railway managers in the past declared that their principle was "tempering the wind to the shorn lamb," their descriptive accuracy would have been great, while their popularity might have been even greater. Somehow the total cost of maintaining and operating the railway has to be paid for; broadly and in the long run, the capital invested in railway construction must be remunerated at the normal rate of interest. Can any system of apportionment of this necessary expenditure be more equitable than one under which the rich—well-to-do passengers, valuable freight, traffic with the advantage of geographical situation close to the markets, and the like—contribute of their abundance; while the poor—immigrant passengers, bulky articles of small value, traffic that has to travel far to find a market, and so forth—are let off lightly on the ground of their poverty? Translated into railway language the principle means this: the total railway revenue is made up of rates which, in the case of traffic unable to bear a high rate, are so low as to cover hardly more than the actual out-of-pocket expenses; which, in the case of medium-class traffic, cover both out-of-pocket expenses and a proportionate part of the unappropriated cost; and which finally, in the case of

[17]Adapted from *The Elements of Railway Economics*, 75–78. Published by the Clarendon Press, Oxford (1904).

high-grade traffic, after covering the traffic's own out-of-pocket expenses, leaves a large and disproportionate surplus available as a contribution toward the unappropriated expenses of the low-class traffic, which such traffic itself could not afford to pay.

This, in principle and in outline, is the system of charging what the traffic can bear. It is the system which is, always has been, and always must be adopted on all railways, whether they be state enterprises or private undertakings. It is a system at once in the interest of the railway, because even the lowest class traffic, by whatever small amount its rates exceed the additional cost of doing the business, contributes to the general expenses of the undertaking; in the interest of the public, because traffic is thereby made possible which could not come into existence at all, if each item of traffic were required to bear, not only its direct expenses, but its full share of all the standing charges; and in the interest of the high-grade traffic, because everything which the low-grade traffic pays beyond its own actual out-of-pocket cost helps to defray the general expenses of the undertaking, which otherwise the high-grade traffic would have to bear unaided.

190. The Rate Theory of the Interstate Commerce Commission[18]

BY M. B. HAMMOND

The tendency of the Interstate Commerce Commission's decisions is, on the whole, towards a cost of service theory of rate making. The following is an attempt at the task of so stating a theory of rates as to bring in the various considerations which the Commission has emphasized as factors in rate making, and show how they can be related to the fundamental principle. It is perhaps well to say that nowhere has the Commission undertaken to state such a comprehensive theory of rate making.

1. In any system of government-made or government-regulated railway rates, it wold seem that this fundamental economic principle should be kept in mind: to perform the service of transporting persons and goods with the least possible expenditure of social energy.

2. One transportation route or one transportation system should never be allowed to take from another route or system, merely as a consequence of competition, traffic which the latter route or system can carry at less expense.

[18]Adapted from *Railroad Rate Theories of the Interstate Commerce Commission*, 192–195. Copyright by the *Quarterly Journal of Economics* and by Harvard University (1911).

3. Rates should be so adjusted as never to take from a place its natural geographical advantages of location; but natural advantages should not be so construed as to mean monopoly privileges.

4. Railway rates as a whole should just cover costs as a whole allowing for a normal rate of return on capital actually invested, a normal return for labor of all sorts, and for depreciation, but not for betterments. This would not mean that superior efficiency in railway management was not entitled to reap the rewards of its superiority in the same way it does in the ordinary industrial establishment where competition rules. On the other hand, the rule must not be construed to mean that any investment in a railroad, no matter how foolishly or recklessly made, is entitled to exact high rates from persons and industries along the line in order to earn current interest rates or dividends. Railway property is not more sacred than other property, nor are railway investors immune from the consequences of their own acts.

5. Each commodity transported should, as far as possible, be made to defray its own share, not only of operating and terminal costs, but also of the fixed costs and dividends. It is possible under modern accounting methods to determine these costs with an approximate degree of accuracy for the principal commodities and classes of traffic. The rates on other commodities may be determined by comparing their ascertainable costs with those of the principal commodities, and to a lesser extent by a comparison of the relative values of the commodities.

6. Differences in distance may be made a test of the reasonableness of differences in rates where other conditions appear to be similar; yet the general rule must be kept in mind that though the aggregate charge should increase as distance increases, the ton-mile rate should decrease.

7. Where the application of none of the above principles seems practicable, competition, which has been conducted in a normal manner over a period of several years, may be assumed to have established a fair relation of rates.

8. A reasonable rate is one which yields a reasonable compensation for the service rendered. If a given rate is reasonable in this sense, an increase in the price of the commodity or in the profits to the producer will not be a valid excuse for increasing the railway rate. The carrier will justly share in the increased prosperity of the producer by securing a larger traffic in this commodity.

The possibility of applying these rules to the business of railway transportation is proved by the fact that the application of

every one of them can be shown by illustrations taken from the Commission's decisions. Their consistent application would mean that the railroads would neither tax the industries of the country nor have their own investments sacrificed; they would not build up one place of industry; they would not take from some persons or commodities their proportionate share of the costs of transportation and impose them upon other persons and commodities; and finally they would not by their system of rate making retard industrial progress or have their own development hindered by failing credit or lack of revenue.

E. VALUATION OF THE RAILROADS

191. Necessity for Valuation of Railway Property[19]

The Commission desires to reaffirm its opinion that it would be wise for Congress to make provision for a physical valuation of railway property. The increased responsibilities imposed upon the Commission make continually clearer the importance of an authoritative valuation of railway property, made in a uniform manner for all carriers in all parts of the country.

In the first place, the Commission has been called upon to pass judgment upon certain rate cases, in which the reasonableness of a general level of rates was brought into question, and for such cases one of the most important considerations is the amount of profit secured to the investment. The actual investment in an enterprise needed for giving the public adequate transportation facilities is entitled to a reasonable return, and no more than a reasonable return, in the form of a constant profit; and a reasonable schedule of rates is one that will produce such a return.

There is a growing tendency on the part of carriers to meet attacks upon their rates by making proof, through their own experts, of the cost of reproducing their physical properties. It is obviously impossible for shippers who are complainants in such cases to meet and rebut such testimony, or even intelligently cross-examine the railroad witness by whom such proof is made. In addition to the large expense of retaining experts competent to make such investigations, the shippers have no access to the property of the carriers or to their records showing the cost of construction and other necessary information. The carriers, on the other hand, having access to the records and property, can use the

[19]Adapted from the *Twenty-Second Annual Report of the Interstate Commerce Commission,* 83–85 (1908).

information compiled from them or not, in any given case, as their interests may require.

A second consideration is the importance which the question of capitalization has assumed in recent years. No one at the present time can say whether railways are undercapitalized or overcapitalized. A valuation adequate to this problem should not stop with the simple statement of an amount; on the contrary, it should analyze the amount ascertained according to the sources from which the value accrues and show the economic character as well as the industrial significance of the several forms of value.

A third argument is found in the present unsatisfactory condition of railway balance sheets. The balance sheet is, perhaps, the most important of the statements that may be drawn from the accounts of corporations; for, if correctly drawn, it contains not only a classified statement of corporate assets and corporate liabilities, but it provides in the balance, that is to say, the "profit and loss," a quick and trustworthy measure of the success that has attended the operation and management of the property. Every balance sheet begins with "cost of property," against which is set a figure which purports to stand for the investment. At present no court, commission, accountant, or financial writer would for a moment consider the present balance sheet statement, purporting to give the "cost of property," even in a remote degree, as a reliable measure either of the money invested or of present value. Thus, at the first touch of critical analysis, the balance sheets of American railways are found to be inadequate. They are incapable of rendering the service which may rightly be demanded of them. The only possible cure for such a situation is for the government to make an authoritative valuation of railway property, and to provide that the amounts so determined be entered upon the books of the carriers as the accepted measure of capital assets.[20]

192. Market Value as a Basis for Rates[21]

BY ROBERT H. WHITTEN

The theory that rates should be based upon market value would allow the railroads a return on monopoly value from favorable location. Such a monopoly value is not usually claimed for utilities. It is somewhat similar to the claim that location in the city

[20]An Act of Congress, of March 1, 1913, provided for the valuation of the property of all common carriers in the United States under the direction of the Interstate Commerce Commission.

[21]Adapted from *Valuation of Public Service Corporations,* 53–55. Copyright by the author (1912).

streets under a franchise can be capitalized for rate valuation purposes. A closer parallel, however, is the case of a water supply plant that has secured the most economical source of supply. It is inconsistent with what is believed to be the governing principle of justice and equity which forms the basis of public service control, that rates should be increased, in order to pay a return on the capitalized value of exclusive location or other monopoly advantage that represents no actual investment. A railroad exercises the right of eminent domain to secure its location and the right of eminent domain can only be lawfully exercised for a public purpose. The location secured by this method for a public purpose cannot justly create a monopoly that will be capitalized against the very public purpose that it was intended to serve—the transportation of freight and passengers.

By the above method rates are based on cost, but not necessarily on the cost of the road itself, but in many cases on the cost of a competing or hypothetical road. Market value has nothing to do with the rate question as thus considered. It is only set up after the rates are in fact determined. To be sure, the theory is that rates are based on a fair return on the market value of the road under reasonable rates. The impossibility of basing reasonable rates on a market value that is itself determined by reasonable rates is apparent. It is a clear case of reasoning in a circle. We have the evident absurdity of requiring the answer to the problem before we can undertake its solution. Market value is not really a part of the process but the final result. It includes in many cases a capitalization of certain monopoly profits and the monopoly value thus created is set up as justifying the higher rates which have in fact created the monopoly value.

193. Physical Valuation as the Basis of Rates[22]

BY SAMUEL O. DUNN

In recent years a new theory of the proper way to ascertain the reasonableness of rates has gained wide acceptance. Many believe that the railways of this country are overcapitalized. They think, therefore, that the return on their capitalization is not a criterion of the reasonableness of their rates. The sole true criterion, they believe, is a "fair return" on the "fair value" of the properties of the railways; a "fair return" is the current rate of interest; and therefore the government should make a valuation of the properties,

[22]Adapted from *The American Transportation Question,* 84–95. Copyright by D. Appleton & Co. (1912).

and in future so regulate rates as to restrict net earnings to the current rate of interest on this valuation.

Many believe that large amounts of net earnings, that legally might have been paid out to the stockholders, have instead been invested in the properties. The properties also contain a large amount of so-called "unearned increment." It is argued that, as railways are public service corporations, their owners are not entitled to receive a return on those parts of their value which have been created by the investment of earnings or by increases in the value of real estate caused by the industrial development of the country.

The owners and managers contend, on the other hand, that in any estimate that may be made of the value of the properties on which a return should be allowed to be earned, every factor entering into their present value should be considered. The net earnings, they say, belong to the stockholders. They may either invest them or pay them out as dividends; and where they have chosen to invest them the value thereby added belongs to them. They also own the real estate used for railway purposes as absolutely—so long as it is used for railway purpose—as the farmer owns his farm; and therefore they have the same right, it is said, to profit by increases in its value.

From a legal standpoint the spokesmen for the railways seem to have the better of the argument. The fifth and fourteenth amendments to the Federal Constitution prohibit the Nation and the States from taking private property for public use without due process of law and just compensation. When the railway, in the exercise of the power of eminent domain, takes the farmer's land, these provisions are construed to mean that it must pay him for it —not what it cost him—but its reasonable market value at the time that it is taken. A similar construction of the same provisions as they apply to railways would require that rates should be so regulated as to enable the railways to earn a return on the value of their properties at the time that the rates are being regulated, however the value may have been created. For if the rates were so regulated as to disable the company from earning a return on any part of the value of its property this would be, in effect, to take so much of its value.

Any plan for valuation, other than present value is indefensible. Cost of reproduction is no exception. It costs on the average from one and one-third to three times as much to get land for railway as for other purposes. This is because its acquisition and use for railway purposes involve damage to adjacent property which must

be paid for, and because land that is directly in the path of a coming railway attains a monopoly value. The Railroad Commission of Minnesota, in making its valuation of the railways of that state, held that the appraisal of railway land should be based on the value of adjacent land used for other purposes.

But how, railway men ask, can what the farmer would have to pay for land properly be used as a factor in estimating what it would cost to reproduce the railway? Suppose that adjacent farm land were worth $100 an acre; that the valuation of an established railway were made on this basis; and that afterward there was built a new and competing line, to which the actual cost of land was $200 an acre. The competitive rates on competing railways must be the same. If the rates of the older railway were to be so fixed as to restrict it to a return on $100 an acre, the new railway would have to meet them and might thereby be deprived of the opportunity to earn a return on part of its actual investment. This would tend to discourage new railway construction.

The Railroad Commission of Washington met a situation similar to this when it made its valuation of the railways of that state. The Northern Pacific, many years ago, acquired land for extensive terminals on Puget Sound at a low price. The Harriman lines recently built to Puget Sound, and because of the increase in the value of land had to pay very much more for it. The two systems were competitors, and had to make the same competitive rates. To have based the valuation of the Northern Pacific's land on its original cost, or on its estimated value for other than railway purposes, might have prevented the Harriman lines from earning a fair return on the actual cost of their land. The Commission, therefore, based the valuation of the land of both roads on its present estimated cost of acquisition for railway purposes.

Another important point in estimating the cost of reproducing the physical plants of railways is what deduction should be made for depreciation, and what addition should be made for appreciation, in the value of their various parts. The moment a rail or tie is laid, or a signal tower or station is finished, it begins to deteriorate, owing to use, and the ordinarily insidious, but often violent, ravages of the elements. But while the depreciation is going on there is also appreciation going on. As soon as a new line is finished maintenance forces are put to work, if it is well managed, which limit the depreciation that takes place by making constant repairs and renewals. If a deduction from the cost of reproduction should be made because of depreciation, an addition to it should be made because of appreciation.

According to the widely accepted theory, as soon as an estimate of the cost of physical reproduction is finished, we should go ahead and so regulate rates on a road as to limit each carrier to the same return. But is such an estimate a valuation? Indubitably, other things being equal, a railway having a good physical plant is more valuable than one having a poor one. But, surely, the estimated cost of reproducing a railroad's plant is not the value of the plant; and the value of the plant is not the value of the railroad.

A railway through mountainous country might be more expensive to reproduce than one built through easy prairie country; but the latter's plant may be the more valuable, simply because it is the better machine for rendering transportation.

Again, of two roads having equally good physical plants, that having the larger net earnings is plainly the more valuable. Now, net earnings do not depend solely on rates. They are the margin between gross earnings and operating expenses. Gross earnings depend not only on the rates charged, but on the nature and density of traffic. These, in turn, result largely from the energy and skill used by the traffic department of the railway in attracting population to its lines, teaching the farmers how to increase the productivity of the soil, securing the opening of mines and the location of factories, and so adjusting rates as to enable producers in the territory to compete successfully in the markets of the entire country and of the world against the producers in other sections and countries. Whether operating expenses shall be high or low in proportion to gross earnings depends on the enterprise and skill used by the management in reducing the grades and eliminating the curvature in track, in enlarging terminals, developing *esprit de corps* among officers and employees, increasing shop efficiency, augmenting tonnage per car and per train load, and in a hundred other elements of good management. A road whose traffic is large and whose operating expenses are relatively small obviously would have larger net earnings, and, therefore, be a more valuable property than a road on which the traffic is relatively small and the operating expenses relatively high, on any basis of rates whatever that might be applied on both.

Large traffic and relatively low operating expenses are strong evidences of good management. If valuation were based entirely on the cost of physical reproduction, and the net earnings of each road could be, and were, limited to the same amount, the better managed roads would be deprived of the fruits of their good management.

As a matter of fact, such regulation probably would be entirely impracticable; for the competitive rates on different roads must be the same; and, owing to the differences in density of traffic and operating expenses, no two roads charging the same rates could be made to earn the same percentages on their valuations.

194. The "Railway-Value" of Land[23]

It is manifest that an attempt to estimate what would be the actual cost of acquiring the right of way if the railroad were not there is to indulge in mere speculation. The railroad has long been established; to it have been linked the activities of agriculture, industry, and trade. Communities have long been dependent upon its service, and their growth and development have been conditioned upon the facilities it has provided. The uses of property in the communities which it serves are to a large degree determined by it. The values of property along its line largely depend upon its existence. It is an integral part of the communal life. The assumption of its non-existence, and at the same time that the values that rest upon it remain unchanged, is impossible and cannot be entertained. The conditions of ownership of the property and the amounts which would have to be paid in acquiring the right of way, supposing the railroad to be removed, are wholly beyond reach of any process of rational determination. The cost-of-reproduction method is of service in ascertaining the present value of the plant, when it is reasonably applied and when the cost of reproducing the property may be ascertained with a proper degree of certainty. But it does not justify the acceptance of results which depend upon mere conjecture.

The question is whether, in determining the fair present value of the property of the railroad company as a basis of its charges to the public, it is entitled to a valuation of its right of way not only in excess of the amount invested in it, but also in excess of the market value of contiguous and similarly situated property. For the purpose of making rates, is its land devoted to the public use to be treated (irrespective of improvements) not only as increasing in value by reason of the activities and general prosperity of the community, but as constantly outstripping in this increase all neighboring lands of like character, devoted to other uses? If rates laid by competent authority, state or national, are otherwise just and

[23]Adapted from the opinion of the court in *Simpson* v. *Shepard,* 33 Supreme Court Reporter 761 (1913). This is the well-known "Minnesota Rate Case."

reasonable, are they to be held to be unconstitutional and void because they do not permit a return upon an increment so calculated?

It is clear that in ascertaining the present value we are not limited to the consideration of the amount of the actual investment. If that has been reckless or improvident, losses may be sustained which the community does not underwrite. As the company may not be protected in its actual investment, if the value of its property be plainly less, so the making of a just return for the use of the property involves the recognition of its fair value if it be more than its cost. The property is held in private ownership, and it is that property, and not the original cost of it, of which the owner may not be deprived without due process of law. But still it is property employed in a public calling, subject to governmental regulation, and while, under the guise of such regulation, it may not be confiscated, it is equally true that there is attached to its use the condition that charges to the public shall not be unreasonable. And where the inquiry is as to the fair value of the property, in order to determine the reasonableness of the return allowed by the rate-making power, it is not admissible to attribute to the property owned by the carriers a speculative increment of value, over the amount invested in it and beyond the value of similar property owned by others, solely by reason of the fact that it is used in the public service. That would be to disregard the essential conditions of the public use, and to make the public use destructive of the public right.

The increase sought for "railway value" in these cases is an increment over all outlays of the carrier and over the values of similar land in the vicinity. It is an increment which cannot be referred to any known criterion, but must rest on a mere expression of judgment which finds no proper test or standard in the transactions of the business world.

Assuming that the company is entitled to a reasonable share in the general prosperity of the communities which it serves, and thus to attribute to its property an increase in value, still the increase so allowed, apart from any improvements it may make, cannot properly extend beyond the fair average of the normal market value of land in the vicinity having a similar character. Otherwise we enter the realm of mere conjecture. We therefore hold that it was error to base the estimates of value of the right of way, yards, and terminals upon the so-called "railway value" of the property. The company would certainly have no ground of complaint if it were allowed a value for these lands equal to the fair average market value of similar land in the vicinity.

F. GOVERNMENT OWNERSHIP OF RAILROADS

195. The Drift toward Government Ownership[24]

BY FRANK HAIGH DIXON

We have reached a point in the regulation of railways where competition in rates to any great degree is hardly probable. Economists have frequently demonstrated the undesirability of encouraging competition between industries subject to the law of increasing returns, and particularly between railways which have such enormous fixed plants in relation to the business done. Regulation has been substituted for competition as a public safeguard. But this principle of regulation has now been carried so far that the rate-fixing power has virtually been taken out of the hands of the railways and transferred to the Interstate Commerce Commission. Rates are rapidly becoming hardened at the maximum point fixed by the Commission, and competition, at least among parallel railways, has largely disappeared.

But the statement is frequently made that even though competition in rates is ended, railways should be prevented from agreements with one another in order that the public may enjoy the benefits of competitive service. But what, it may be asked, is an improvement in service but a reduction in rates? And why may not the practice of rebating be pursued in this manner even more successfully than by the more crude method of returning a part of the freight money?

In fact, in the knotty problems with which the Commission has wrestled, such as elevator allowances, transit privileges, the absorption of switching charges, the spotting of cars, there is a clear recognition of the fact that these services are fundamentally problems of rates, that they must be adjusted by the regulating body, that they must be uniform and non-discriminatory, and that they must be filed as rates are filed for public inspection and criticism.

It is the pressure of competitive service that has driven the railroads into the impossible position which some of them now occupy where they are absorbing terminal services of such an expensive character that they are left with scarcely enough of the total rate to pay operating expenses; where the industrial plants are receiving from the railways a portion of the freight rate for the privilege of hauling their own cars about their own yards, with their own locomotives. Free storage, free loading and unloading,

[24]Adapted from "The Economic Significance of Interlocking Directorates in Railway Finance," in the *Journal of Political Economy,* XXII, 952–954 (1914).

free collection and delivery, refrigerator service, milling in transit, prompt and abundant provision of cars, preferred services in the matter of speed; all of these practices and many more have resulted in discriminations and have depleted the revenues of the roads. Reduced to their lowest terms these are all questions of rates, if not of rebates. From this tangle of inconsistent and unprofitable relations into which the railways have been forced by the pressure of competition, they can be extricated only with the aid of the Interstate Commerce Commission.

There seems to me to be but one outcome. Before long the Commission will be compelled to regulate service quite as rigidly as it does rates. All the power necessary to do so is already theirs by statute, and they have already in many individual cases made significant rulings that involve problems of service.

When that day comes, and it is not far in the future, when the Commission assumes as complete control of service as it has already done of rates, it will then be of little or no public concern whether parallel and competing railways are or are not interlocked. That every evil of a monopoly character would then be done away with for good and all I do not assert. That would be placing too low an estimate on the ingenuity of the financial juggler. But the public advantages of co-operation on the part of the large railway systems so decidedly outweigh any remote disadvantages that there seems no justification for a prevention of interlocking relationships. Such close co-operation will work, not to the restraining of trade unreasonably, but rather to its liberation, for it will permit the execution of co-operative plans for relief in many situations that are now wastefully handled. It will permit the application of principles of scientific economic railway operation to the railway system as a whole.

It is a curious myopia that persists among the American people and demands competition between these great industries to the certain burdening of them ultimately with its inevitable costs. Yet with this prejudice against combination lodged in the breasts of the people, the movement of events as expressed in legislation has been steadily away from reliance upon the efficacy of competition and in the direction of more and more rigid regulation. That it will stop short of government ownership does not seem at all clear.

196. Government Ownership as a Refuge[25]

President W. W. Finley,[26] in his thoughtful and suggestive address before the New York Traffic Club, made one remark which

[25]Adapted from an editorial in the *Railway World,* March 13, 1908.

[26]The late president of the Southern Railway.

we earnestly commend to the attention of railway stockholders and officials. After showing that the growth of the transportation system of the country must further its continued economic development, and that the present tendencies of public regulation, if allowed to go on, would be to cripple private enterprise, he said: "I do not believe that the sentiment of a majority of the people of the United States is favorable to governmental ownership, but I do believe that if some of the more extreme legislation already enacted is supplemented along the lines now proposed, the ultimate result must be to break down the system of private ownership."

Government ownership of railroads, long regarded as the dream of the impractical radical, is rapidly looming into view as an impending change far-reaching and fundamental in the structure of our economic life. Government ownership of railroads is the inevitable consequence of the present system of regulation which is developing into the scheme of irresponsible public management by boards and commissions which will "practically leave little to the owners of the property but the privilege of providing the capital necessary for construction and operation, and liability for heavy damages and attorney's fees in every case of failure to maintain the required standard of service, and for penalties in amounts which might easily absorb a very large proportion of the gross earnings of a company rendering the most efficient service in its power."

We seriously question whether public ownership would not be better than the system of public regulation so graphically described by President Finley. True, it would seriously impair the efficiency of our transportation system. It would also make the railway policies of the country a matter of serious controversy. But, with its disadvantages, it would be an improvement on the present system of regulation.

There is, however, another side to the picture. Under government ownership, the stockholders and creditors of the railways would exchange their holdings for government bonds, and they would be sufficiently influential to protect themselves from any serious injustice in the terms of exchange. They would then turn over the management of the railroads to the government officials, freeing their long-endangered capital for entrance into safer lines of employment and leaving the country to struggle with a set of "problems" far more serious and difficult than even the tariff and currency questions.

Why should the owners of American railway companies resist the trend toward government ownership? They will suffer no damage in the transfer. The courts can be relied on to protect their rights. They will be freed from further worry and annoyance. To

them at least, if not to the shipper, the change will come like a cool and refreshing shower at the close of a hot and sultry day. We recommend to railway owners the careful consideration of this matter. We would even go so far as to suggest that they become active in support of the public-ownership propaganda, and meanwhile that they refrain from further investments in railway development. Even if their advocacy of the strange doctrines of socialism does not succeed, their refusal to invest further in a business which they are not allowed to control may furnish a needed object-lesson to the advocates of railway regulation.

197. The Economies of Government Ownership[27]

BY FRANK PARSONS

Public ownership aims at service rather than profit. It therefore not only tends to a lower rate level than private ownership, gravitating to the greatest service without deficit, but it tends to lower that level. Thus public ownership favors low rates in a double way, first, by tending to bring rates down to cost, and second, by lowering cost.

Some of the reasons for the superior economy of public ownership are as follows:

1. The public plant has no lobby expenses or corruption funds to raise, as many of the private monopolies have.

2. It has no rebates or commissions or other secret concessions to favored customers to provide for.

3. It has no dividends on watered stock to pay.

4. It has no overgrown salaries or monopolistic profits to provide for. The principal salaries are likely to be smaller under public ownership and the wages of ordinary labor somewhat higher than under private ownership.

5. Litigation expenses and lawyer's fees are likely to be less under public ownership than with private systems.

6. The public plant generally is able to save on interest charges. The public credit is better than even that of very strong private companies, the government being able to borrow often at 3 per cent or less when a private company has to pay from 4 to 6 per cent in the same locality. The government also saves on insurance, insurance simply being intended to diffuse loss, the government acting as its own insurer—diffusing the loss without paying the commission or agents' fees.

[27]Adapted from *Report of the Industrial Commission on Transportation*, IX, 147 (1901).

7. Public ownership gains through superior co-ordination of industry, which is impossible under private ownership except through incurring the dangers of a concentration of wealth and power in the hands of a few, the evils of which would be likely to outweigh the benefits of co-ordination.

8. The public also gains through the civic interests of the people, which increases and facilitates the business. The people patronize their own institutions to a far greater extent than they patronize private institutions. A man does not hesitate to increase the income of a public plant; his civic pride leads him to favor its prosperity; it is his plant; he is a partner in the concern; but the majority of men do not enjoy increasing the profits of a private monopoly.

9. In the next place the public plant escapes the costs and burdens of costly strikes and lockouts.

10. Public ownership saves the cost of numerous regulative commissions and investigations into the secrets of private monopoly. Everything is open and public, and there is no necessity of those tremendous investigations. It also saves in the cost of legislation, since the time and attention of our legislators are very largely given to these great private monopolies, making laws they want and making laws to control them.

11. The superior diffusion of wealth and elevation of labor resulting from a normal public system tend to diminish the extent and the cost of the criminal and defective and unfortunate classes; as in New Zealand, where they have practically wiped out the unemployed agitation through the administration of public utilities.

12. The elimination of the antagonism between the owners of vast industries and the public carries with it all the useless activities and wastes of conflict which result from that antagonism.

198. The Inexpediency of Government Ownership[28]

BY SAMUEL O. DUNN

Do the railway and the general political conditions existing here, and the experience of other democratic nations, indicate that the adoption of government ownership of railways here would be, on the whole, beneficial to the public? The answer to this question must be set forth here in summary manner. It is in brief as follows:

1. The railways of the United States are, considering all pertinent conditions, as economically managed as any in the world; and

[28]Adapted from *Government Ownership of Railways*, 376–378. Copyright by D. Appleton & Co. (1913).

it is probable that under government management there would be an increase in the total expense incurred in rendering railway service.

2. Under private management, the development of the railways of the country has gone forward at a rate which, until recent years, has not been equaled in any country. The capacity of the railway trackage and equipment provided in proportion to both area and population is not surpassed in any other country; and while there are some shortages of facilities for handling freight traffic, these are not peculiar to this country. Similar shortages occur on some of the leading private and state railways of the world.

3. The quality of the freight and passenger service rendered here is in most respects equal or superior to the quality of that rendered by railways in other countries under conditions at all comparable.

4. The service in this country is, however, very deficient as compared with that of most other countries in respect to the extremely important element of safety. But the evidence indicates that this is due rather to local conditions than to private management, and that the situation in this regard probably would not be improved under government management.

5. Passenger rates in this country probably are no higher than in most countries for similar services; but the average rate per passenger per mile is much higher than it is on most state railways; and state railways usually make lower passenger rates than private railways.

6. The freight rates of the railways of this country have been, and are yet, based largely on what the traffic will bear. In other countries under public management, the domestic freight rates are usually based rigidly on distance. The rate-making policy followed in this country is well adapted to promoting the fullest development of industry and commerce, but it has led to many unfair and extremely harmful discriminations. Public regulation has greatly reduced the number of these unfair discriminations, and doubtless can reduce it still further; but, in the nature of things, unfair discrimination seems more likely to occur under private management than under state management.

7. The average freight rate per ton mile of the railways of this country is the lowest in the world, excepting, apparently, that of the state railways of Japan; and relatively to the conditions under which they are charged freight rates here are probably the lowest in the world. Private railways generally tend to make lower freight rates than state railways; and low freight rates are of more benefit to the public than low passenger rates.

8. While in many countries state railways cause financial losses to the public, in the United States the public derives large sums from the railways in the form of taxes. Furthermore, the amount of taxes collected from them is rapidly increasing.

9. The condition of the labor employed on the railways of this country relatively is as good as that of the labor employed on the railways of any other country; and it could not be substantially improved without imposing an additional burden of rates on travelers or shippers, or both, or an additional burden of taxes on the general public. In either case the greater part of the added burden would fall on the middle and working classes.

10. In view of the experience of many other countries with state management of railways, and of the conditions existing in our own country, it would seem that state management here would have a tendency to corrupt rather than to purify politics.

Clearly the preponderance of the evidence does not indicate that, under existing conditions at least, the adoption of government ownership in the United States would be beneficial to the public.

VIII

THE PROBLEM OF CAPITALISTIC MONOPOLY

Corners, rings, patents of monopoly, pools, cartels, trusts, holding companies, "Gary dinners," interlocking directorates, "communities of interest," "gentlemen's agreements," closed shops, codes of "professional ethics"—such terms serve to emphasize the venerable age, the cosmopolitan character, and the motley form of the monopoly problem. It is as old as industrial society and as new as the latest court decision. Other ages have met this "hydra-headed monster"; but they have possessed neither a collection as varied as ours nor such a prize specimen as our "capitalistic monopoly." This for us is the real monopoly. The "corner" is an aspect of speculation. Copyrights and patents exist by grace of the state. The "natural" monopolies of such things as gas, water, and telephone service, and even of forest lands and iron deposits, present much the same aspects and give rise to much the same problems as the railroads. But it is otherwise with "capitalistic monopoly," a phenomenon of Modern Industrialism, an offshoot of the machine system.

To act with wisdom we must first determine whether so "unnatural" and so obvious a thing is "inevitable." To do this we must carefully consider the "conditions of monopolization." But the institution is new; its life history does not as yet stand revealed in its entirety; our experience is limited; and our view is too close for perspective. Our answer is, therefore, hesitating. However, there seem to be three "groups of forces" which have conspired to produce this phenomenon. First, the machine process must be charged with partial responsibility. It has made large-scale production possible; it has caused industries of tremendous size to operate in a "stage of increasing returns"; it has developed in the corporation an impersonal form of business organization; it has concentrated in the hands of the pecuniarily efficient few huge aggregates of wealth; and in many lines it has reduced the number responsible for production to a small handful who can know each other personally and among whom a group spirit can develop. Even if monopoly and large-scale production are distinct economic phenomena, the problem of "capitalistic monopoly" arises only where wealth is concentrated. Second, the high rate of development in the industrial system cannot completely escape responsibility. New technique is often forced into use before old technique has paid for itself. The development of demand in our constantly expanding market has had the most vacillating course. Under competition and independent action of rival producers the market has experienced alternate dearth and glut. These uncertainties, seriously threatening profits, and even solvency, have been greatly increased by violent and unpredictable rhythm of the business cycle. Competing producers have thus been compelled "to get together." Third, "artificial" conditions have contributed their influence to the transformation. The "concentration of cash" and the "restriction of credit," the fickleness and special favors of the tariff, and the clever "manipulation" of railway rates have contributed to the general result. Were we able properly to impute responsibility to these various "forces," we should perhaps know what to do. Were responsibility entirely upon those last mentioned, the monopoly problem would resolve itself into such problems as the money trust, the tariff, and railroad rates. Were sole responsibility upon the second, our question would become a mere aspect of the problem of the economic cycle. Only the first directly promises an independent problem. Yet, were the causes wholly artificial, a removal of them would not solve the problem; their influence has been too organic and too wide-reaching for that.

There is a monopoly problem, involving these various factors, yet far more comprehensive than a mere aggregation of them.

Public attention seems to be directed very largely to some few minor aspects of this larger problem. It concerns itself with monopoly price, the use of "unfair competitive methods," and the "power" of big business in politics. Only vaguely is it seen that the institution of monopoly is intimately associated with the stratification of society, the concentration of wealth, the distribution of income, and other aspects of social development. Very little attention is given to the institutional aspects of monopoly: its influence in the determination of the kind of a society we would like to realize; its influence upon the ethics underlying distribution; the effect it is likely to have upon the attempt of class- and group-conscious labor to incorporate their interests into the institutional system; its effect upon the distribution of opportunity, and similar questions. But all these are important aspects of the larger problem.

In our partial attempt to control monopoly we have used very largely the agencies of the state. The law has given the *form* of monopoly organization a merry chase. Perhaps "the complete merger," now the popular style, is a permanent garb rather than a temporary disguise. In that event, our attentions may have been justified in putting the problem in terms in which it can be reached. The application of the Sherman law has doubtless given us the beginning of a "standard of reasonableness" in terms of which the conduct of large business units can be judged, despite the obvious fact that trusts have waxed fat on the invigorating tonic of dissolution. By more sharply defining "unfair competition," the Clayton bill should raise the "plane" of industrial rivalry. The promises of the Trade Commission are vague and indefinite as yet, though they bristle with possibilities.

But as yet the real problem of monopoly has not been solved. What shall we do about it all? It is possible that monopoly is a mere "passing phase" of a larger industrial movement, born of competition, and with a short span of life. It may be that legislation and administration can achieve a "restored" régime of unimpeded competition, even if such a régime never existed. Or it may be that monopoly is "inevitable," and that all we can do is to regulate it before it regulates us.

What we most need is a far-sighted vision and patience carefully to calculate anticipated gains and losses. That "competition is wasteful" does not make out a case for regulated monopoly. The costs of regulation must be balanced against the costs of waste. But regulation once started is likely to be carried to unforeseen and perhaps unwarranted lengths, both in the minuteness of its control and in the number of industries affected. These costs incident to this extension must find a place in our calculation. Our judgment, too, must not be too immediate. Our capacity for development may be quite differently utilized under régimes of monopoly and competition. We know, for example, that an incentive to monopoly has been a desire to escape the rigors of changing technique. Is it not, therefore, more than possible that monopolistic industries will introduce technical improvements much less rapidly than competitive industries? Is it not further possible that new technique may not succeed in getting itself invented? The question must be settled by a long-time calculation of relative gains and sacrifices. But this is not the whole, but only the economic aspect of the larger problem of monopoly. It must be subordinated to the more general question, Are the general social tendencies inherent in regulated monopoly more compatible with our realizable social ideals than those implicit in a system of competition?

This is the beginning of the problem. If our decision favors a restoration of a competitive society, we are face to face with the problem of ways and means. If we decide in favor of regulated monopoly, we must determine, perhaps as we go, the extent to which monopoly shall be recognized, the means and extent of regulation, and the "good of it all." The problem awaits a progressive solution.

A. IS MONOPOLY INEVITABLE?

199. The Perennial Problem of Monopoly

a) An Early Corner in Grain[1]

And Joseph went out from the presence of Pharaoh, and went throughout all the land of Egypt. And in the seven plenteous years the earth brought forth by handfuls. And he gathered up all the food of the seven years which were in the land of Egypt, and laid up the food in the cities: the food of the field, which was round about every city, laid he up in the same. And Joseph laid up grain as the sand of the sea, very much, until he left off numbering; for it was without number.

And the seven years of plenty, that was in the land of Egypt, came to an end. And the seven years of famine began to come, according as Joseph had said: and there was famine in all lands; but in all the land of Egypt there was bread. And when all the land of Egypt was famished, the people cried to Pharaoh for bread: and Pharaoh said unto all the Egyptians, Go unto Joseph: what he saith unto you, do. And the famine was over all the face of the earth: and Joseph opened all the storehouses, and sold unto the Egyptians; and the famine was sore in the land of Egypt. And all countries came unto Egypt to Joseph to buy grain, because the famine was sore in all the earth.

And there was no bread in all the land; for the famine was very sore, so that the land of Egypt and the land of Canaan fainted by reason of the famine. And Joseph gathered up all the money that was found in the land of Egypt, and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. And when the money was all spent in the land of Egypt, and in the land of Canaan, all the Egyptians came unto Joseph, and said, Give us bread: for why should we die in thy presence? for our money faileth. And Joseph said, Give your cattle; and I will give you for your cattle, if money fail. And they brought their cattle unto Joseph; and Joseph gave them bread in exchange for the horses, and for the flocks, and for the herds, and for the asses: and he fed them with bread in exchange for all their cattle for that year. And when the year was ended they came unto him the second year, and said unto him, We will not hide from my lord, how that our money is all spent; and the herds of cattle are my lord's; there is naught left in the sight of my lord, but our bodies and our lands: wherefore should we die before thine eyes, both we

[1]From Gen. 41:46–49, 53–57; 47:13–22 (800 B.C.).

and our land? buy us and our land for bread, and we and our land will be servants unto Pharaoh: and give us seed, that we may live, and not die, and that the land be not desolate.

So Joseph bought all the land of Egypt for Pharaoh; for the Egyptians sold every man his field, because the famine was sore upon them: and the land became Pharaoh's. And as for the people he removed them to the cities from one end of the border of Egypt even to the other end thereof. Only the land of the priests bought he not.

b) A Vindication of Philosophy[2]

BY ARISTOTLE

It would be well also to collect the scattered stories of the ways in which individuals have succeeded in amassing a fortune; for all this is useful to persons who value the art of making money. There is the anecdote of Thales the Milesian and his financial device, which involves a principle of universal application, but is attributed to him on account of his reputation for wisdom. He was reproached for his poverty, which was supposed to show that philosophy was of no use. According to the story, he knew by his skill in the stars while it was yet winter, that there would be a great harvest of olives in the coming year; so, having a little money, he gave deposits for the use of all the olive presses in Chios and Miletus, which he hired at a low price because no one bid against him. When the harvest-time came, and many wanted them all at once and of a sudden, he let them out at any rate which he pleased, and made a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort. He is supposed to have given a striking proof of his wisdom, but, as I was saying, his device for getting money is of universal application, and is nothing but the creation of a monopoly. It is an art often practiced by cities when they are in want of money; they make a monopoly of provisions.

c) An Early Use of Class Price[3]

BY JOHN GOWER

Wouldst thou have closer knowledge of Trick the Taverner? Thou shalt know him by his piment, his clarée, and his new ypocras, that help to fatten his purse when our city dames come tripping at

[2]From *The Politics,* I, 11: 7–10 (357 B.C.); translated by B. Jowett.

[3]Adapted from *Mirour de l'Omme,* ll. 421 ff. (1376–1379). Translation in Coulton, *A Mediaeval Garner,* 577–578.

dawn to his tavern as readily as to minister or to market. Then doth Trick make good profit; for be sure that they will try every vintage in turn, so it be not mere vinegar. Then will Trick persuade them that they may have Vernage, Greek wine, and Malvesie if they will but wait; the better to cajole them of their money, he will tell them of divers sorts—wines of Crete, Ribole, and Roumania, of Provence, and Monterosso; so he boasteth to sell Riviera and Muscadel from his cellar, but he hath not a third part of all these; he nameth them but for fashion's sake, that he may the better entice these dames to drink. Trust me, he will draw them ten sorts of wine from one barrel, when once he can get them seated in his chairs. Better than any master of magic Trick knoweth all the arts of the wine-trade; all its subtleties and its guile. He is crafty to counterfeit Rhine wine with the French vintage; nay, even such as never grew but by Thames shore, even such will he brisk up and disguise, and baptize it for good Rhenish in the pitcher: so quantily can he dissemble, that no man is so cautious but Trick will trick him in the end.

d) In the Merrie England of Queen Bess[4]

BY DAVID HUME

The active reign of Elizabeth had enabled many persons to distinguish themselves in civil or military employments; and the queen, who was not able, from her revenue, to give them any rewards proportional to their services, made extreme use of an expedient employed by her predecessor. She granted her servants and courtiers patents for monopolies, and these patents they sold to others, who were thereby enabled to raise commodities to what price they pleased, and who put invincible restraints upon all commerce, industry, and emulation in the arts. It is astonishing to consider the number and importance of those commodities which were thus assigned over to patentees. Currants, salt, iron, powder, cards, calfskins, fells, pouldavies, ox shin-bones, train-oil, lists of cloth, potashes, aniseeds, vinegar, sea-coals, steel, aqua-vitæ, brushes, pots, bottles, saltpetre, lead, accidences, oil, calamine-stone, oil of blubber, glasses, paper, starch, tin, sulphur, new drapery, pilchards; transportation of iron ordnance, of beer, of leather; importation of Spanish wool, of Irish yarn. These are but a part of the commodities which had been appropriated by monopolists. When this list was read in the House, a member cried, "Is not bread in the number?" "Bread!" said everyone, with astonishment. "Yes, I assure you,"

[4]Adapted from *The History of England,* IV, chap. xliv (1759).

replied he, "if affairs go on at this rate, we shall have bread reduced to a monopoly before next Parliament." These monopolists were so exorbitant in their demands that in some places they raised the price of salt from sixteen pence a bushel to fourteen or fifteen shillings. Such high profits naturally begat intruders upon their commerce; and, in order to secure themselves against encroachments, the patentees were armed with high and arbitrary powers from the council, by which they were enabled to exact money from such as they thought proper to accuse of interfering with their patent.

200. The Perennial Protest against Monopoly

a) A Proverb about Corners[5]

The liberal soul shall be made fat;
And he that watereth shall be watered also himself.
He that withholdeth grain, the people shall curse him;
But blessings shall be upon the head of him that selleth it.

b) The Ethics of Monopoly[6]

BY MARTIN LUTHER

There are some who buy up altogether the goods or wares of a certain kind in a city or country, so that they alone have such goods in their power, and then fix prices, raise and sell as dear as they will or can. The rule is false and unchristian that anyone sell his goods as dear as he will or can; more abominable still is it that anyone should buy up the goods with this intent. Which same, moreover, imperial and common law forbids and calls monopoly; that is, selfish purchases which are not to be suffered in the land and the city, and princes and rulers should check and punish it if they wish to fulfil their duty. For such merchants act just as if the creatures and goods of God were created and given for them alone, and as though they might take them from others and dispose of them at their fancy.

c) The Pests of Monopoly[7]

BY SIR JOHN CULPEPPER

These, like the frogs of Egypt, have gotten possession of our dwellings, and we have scarcely a room free from them. They sip in our cup; they dip in our dish; they sit by our fire; we find them

[5]Prov. 11:25–26 (350 B.C.).

[6]Adapted from the address on "Trade and Usury," printed in the *Open Court*, XI, 27; translated by W. H. Carruth (1524).

[7]Quoted in Hirst, *Monopolies, Trusts, and Kartells*, 20.

in the dye-vat, washing-bowl, and powdering-tub. They share with the butler in his box; they have marked and sealed us from head to foot; they will not bate us a pin.

d) The Inexpediency of Monopoly[8]

BY ADAM SMITH

Though some exclusive privileges arise from nature, they are generally the creatures of the civil law. Such are monopolies and all privileges of corporations, which, though they might once be conducive to the interest of the country, are now prejudicial to it. The riches of the country consist in the plenty and cheapness of provisions, but their effect is to make everything dear. When a number of butchers have the sole privilege of selling meat, they may agree to make the price what they please, and we must buy from them whether it be good or bad. Even this privilege is not of advantage to the butchers themselves, because the other trades are also formed into corporations, and if they sell beef dear they must buy bread dear. But the great loss is to the public, to whom all things are rendered less comeatable, and all sorts of work worse done; towns are not well inhabited, and the suburbs are increased.

e) Monopoly Indefensible[9]

A private monopoly is indefensible and intolerable. We therefore favor the vigorous enforcement of the criminal as well as the civil law against trusts and trust officials and demand the enactment of such additional legislation as may be necessary to make it impossible for a private monopoly to exist in the United States.

201. Monopoly, the Result of Natural Growth[10]

BY GEORGE GUNTON

Many people talk about trusts as if they were a sudden creation, the product of a conspiracy against the public. Nothing could be farther from the truth than this view. The history of trusts is

[8]Adapted from *Lectures on Justice, Police, Revenue and Arms,* 129–130; edited by Edwin Cannan (1763).

[9]From the national platform of the Democratic party, adopted at Baltimore, July 3, 1912.

[10]Adapted from *Trusts and the Public,* 32–34. Copyright by D. Appleton & Co. (1899).

simply the history of the continuous and almost imperceptible tendency in progressive society toward a greater centralization of capital which the most highly developed labor-saving methods of production make necessary. The impeachment of trusts as economic institutions is therefore the impeachment of the concentration of capital, without which, it is needless to say, our great railroad, telegraph, and factory systems would have been impossible. Very few of the industries which use the most approved methods and have contributed most to cheapening the multitude of products can now be conducted with a capital of less than a million dollars; many of them require tens and even hundreds of millions. A hundred or even fifty years ago, a millionaire might have been regarded with as much apprehension as is a hundred-millionaire today; indeed, he would have sustained about the same relation to the productive needs and methods of the community. The truth is that in this case, as in the growth of all social institutions, the new form came because it was necessary. The small English water-wheel factory on the river bank, in the eighteenth century, came because the isolated hand-loom and spinning-wheel did not permit the utilization of the most economic methods after the spinning-jenny and spinning-frame were invented. The steam-driven factory in thickly populated centers came in the first quarter of the nineteenth century because the water-wheel shops were incapable of employing the best methods after the invention of steam and the power-loom had been completed. If these had not been capable of lessening the cost of production and so rendering a general benefit to the community, they could not have succeeded, as there would have been no demand for their products. So, again, by the middle of the century, when machinery had been still further improved, partnership organization of industry became necessary because single individuals were not rich enough to furnish plants sufficiently large to employ profitably the most improved methods.

With the cheapening of products and the increased consumption which followed the use of these successive improvements, and the consequent social advance of the community, a revolution in the methods of distribution and international communication became necessary. Inventions multiplied, which so enlarged the industrial world as to render corporations necessary in order to obtain the best economic results. Modern trusts are but a single step farther in the same direction. They are simply the organization of corporations in the same way that corporations were the organization of individual capitalists.

Trusts, instead of being sudden monopolistic creations that have been sprung on the community by a few designing conspirators, are but the last link in an industrial chain more than a century long; they are no more revolutionary than any one of the previous links, and less so than some of the earlier ones. Each one of these links in the great chain of industrial evolution came and stayed only because it was more profitable than its predecessors to those who employed it, lessened the cost of production, and served the community more cheaply. Had it not done this, it could not have sustained itself in competition with the old methods.

202. Monopoly, the Result of Artificial Conditions[11]

BY WOODROW WILSON

Gentlemen say, they have been saying for a long time, that trusts are inevitable. They say that the particular kind of combinations that are now controlling our economic development came into existence naturally and were inevitable; and that, therefore, we have to accept them as unavoidable and administer our development through them. They take the analogy of the railways. The railways were clearly inevitable if we were to have transportation, but railways after they are once built stay put. You can't transfer a railroad at convenience; and you can't shut up one part of it and work another part. It is in the nature of what economists, those tedious persons, call natural monopolies; simply because the circumstances of their use are so stiff that you can't alter them.

I admit the popularity of the theory that the trusts have come about through the natural development of business conditions in the United States, and that it is a mistake to try to oppose the processes by which they have been built up, because those processes belong to the very nature of business in our time, and that therefore the only thing we can do is to accept them as inevitable arrangements and make the best out of it that we can by regulation.

I answer, nevertheless, that this attitude rests upon a confusion of thought. Big business is no doubt to a large extent necessary and natural. The development of business is inevitable, and, let me add, is probably desirable. But that is a very different matter from the development of trusts, because the trusts have not grown. They have been artificially created; they have been put together, not by natural processes, but by the will, the deliberate planning will, of men who were more powerful than their neighbors in the

[11]Adapted from *The New Freedom,* 163–169. Copyright by Doubleday, Page & Co. (1912).

business world, and who wished to make their power secure against competition. The trusts do not belong to the period of infant industries. They are not the products of the time, that old laborious time, when the great continent we live on was undeveloped, the young nation struggling to find itself and get upon its feet amidst older and more experienced competitors. They belong to a very recent and very sophisticated age, when men knew what they wanted and knew how to get it by the favor of the government.

Did you ever look into the way a trust was made? It is very natural, in one sense, in the same sense in which human greed is natural. If I haven't efficiency enough to beat my rivals, then the thing I am inclined to do is to get together with my rivals and say: "Don't let's cut each other's throats; let's combine and determine prices for ourselves; determine the output, and thereby determine the prices; and dominate and control the market." That is very natural. That has been done ever since freebooting was established. That has been done ever since power was used to establish control. The reason that the masters of combination have sought to shut out competition is that the basis of control under competition is brains and efficiency. I admit that any large corporation built up by the legitimate processes of business, by economy, by efficiency, is natural; and I am not afraid of it, no matter how big it grows. It can stay big only by doing its work more thoroughly than anybody else. And there is a point of bigness where you pass the limit of efficiency and get into the region of clumsiness and unwieldiness. You can make your combine so extensive that you can't digest it into a single system; you can get so many parts that you can't assemble them as you would an effective piece of machinery. The point of efficiency is overstepped in the natural process of development oftentimes, and it has been overstepped many times in the artificial and deliberate formation of trusts.

A trust is formed in this way: a few gentlemen "promote" it—that is to say, they get it up, being given enormous fees for their kindness, which fees are loaded on to the undertaking in the form of securities of one kind or another. The argument of the promoters is, not that every one who comes into the combination can carry on his business more efficiently than he did before; the argument is: we will assign to you as your share in the pool twice, three times, four times, or five times what you could have sold your business for to an individual competitor who would have to run it on an economic and competitive basis. We can afford to buy it at such a figure because we are shutting out competition.

Talk of that as sound business? Talk of that as inevitable? It is based upon nothing except power. It is not based upon efficiency. It is no wonder that the big trusts are not prospering in proportion to such competitors as they still have in such parts of their business as competitors have access to; they are prospering freely only in those fields to which competition has no access. Read the statistics of the Steel Trust, if you don't believe it. Read the statistics of any trust. They are constantly nervous about competition, and they are constantly buying up new competitors in order to narrow the field. The United States Steel Corporation is gaining in its supremacy in the American market only with regard to the cruder manufactures of iron and steel, but wherever, as in the field of more advanced manufactures of iron and steel, it has important competitors, its portion of the product is not increasing, but is decreasing, and its competitors, where they have a foothold, are often more efficient than it is.

Why? Why, with unlimited capital and innumerable mines and plants everywhere in the United States, can't they beat the other fellows in the market? Partly because they are carrying too much. Partly because they are unwieldy. Their organization is imperfect. They bought up inefficient plants along with efficient, and they have got to carry what they have paid for, even if they have to shut some of the plants up in order to make any interest on the investments; or, rather, not interest on their investments, because that is an incorrect word,—on their alleged capitalization. Here we have a lot of giants staggering along under an almost intolerable weight of artificial burdens, which they have put on their own backs, and constantly looking about lest some little pigmy with a round stone in a sling may come out and slay them.

B. CONDITIONS OF MONOPOLIZATION

203. The Failure of Competition[12]

BY HENRY W. MACROSTY

Modern industry is essentially speculative in character. It has been said, "It is for the prospective, not for the actually existing, demand that a producer has chiefly to provide. Our warehouses and shops overflow with goods that have been produced before being sold, and with a view to their being sold. They have been produced to meet the prospective demand, and to measure that accurately is

[12]Adapted from *Trusts and the State,* 103–119. Published by E. P. Dutton & Co. (1901).

not in the power of the most able and prudent man."[13] This statement applies not only to goods for consumption, but also to goods, such as machinery, which are intended to aid production. The community is interested only in the accommodation of the whole supply to the total demand, but it is to the interest of each individual manufacturer to secure for himself as large a share of that demand as possible, without regard to the probability of there being an oversupply. To secure custom he must underbid his competitors; to make the low price profitable he must reduce his expenses of production. There is thus a permanent stimulus to the improvement of organization and to the invention of new processes; but as soon as these advantages are gained they are immediately lost by competition, and the enhanced profits are either dissipated in expenses or handed over to the consumer. The old economists justified competition on this very ground, that the desire for private gain drove capitalists to improve their industry, and then compelled them to part with their profits to the general public, but they arrived at this only by neglecting all the other aspects of the problem.

The aim of trade is to make profits; the object of making profits, according to commercial philosophy, is to make savings. The reinvestment of savings in new industrial equipment is a necessary condition to industrial progress. Thus industrial development goes hand in hand with an increase in industrial equipment.

This steady tendency to increase the productive machinery of the country necessarily intensifies competition. But if "competition is the life of trade," it is the death of business. The newcomers, equipped with the newest methods and the latest discoveries, produce more cheaply than their predecessors, and a race for life follows, in the course of which more and more goods at lower prices are thrown on the market. If the low prices stimulate fresh demand, general benefit ensues, but the rate of production can govern consumption only within narrow limits. Owing to the great capacity of modern machinery, the operatives employed by the investment of savings can consume only a very small proportion of their product. An outlet must be found either in the discovery of new markets, in countries yet to be developed, or in increased home consumption. The former involves questions of foreign policy and international competition, and must gradually diminish in importance as a solution. As for the latter, the inequitable distribution of wealth and the permanent maladjustment of purchasing and producing power necessarily create an incalculable disorganization of

[13]Mongradien, *The Displacement of Labor and Capital*, 25 (1886).

industry, and profoundly increases the innate inability of the competitive system to balance demand and supply.

In a limited market it is possible for the producer to forecast the probable demand and to estimate the capacity of his competitors to meet it; but in proportion as the markets widen, both these necessary conditions of success, and especially the latter, become more difficult of attainment. A farmer in Essex finds it beyond his power to reckon up the probable produce of a Dakota wheat-crop or the chances of a scarcity in Russia before he decides what acreage he will lay down in corn, and yet his inability may land him in the bankruptcy court. Scarcely less difficult is it for the Sheffield manufacturer to foretell the probability of, say, a raid on rails by the Carnegie combination. What is true of normal conditions of trade holds good with reference to an abnormal demand, and the efforts to meet the latter generally have far-reaching and destructive consequences.

The inability of the capitalist system to control its own productivity must increase with an increase in the complexity of the organization. The influence of machinery on production deserves particular attention. Every invention causes displacement, both of capital and of labor; and while its benefits are distributed over the whole community, its costs must be borne by individual capitalists and laborers. In America the invention of new labor-saving machines proceeds so fast that machinery becomes antiquated before it is worn out, and the workshops are in a constant state of transition. Usually capital suffers less than labor, because of its greater fluidity and its ability to recoup itself from the increased productivity of the inventions. And large businesses suffer less than small, as their powers of adaptation are greater, and therefore small concerns tend to go to the wall. But loss there usually is, and one generation of producers is sometimes ruined for the benefit of posterity.

To sum up, we see that business under capitalism, working through competition, shows an inherent inability to equate supply to demand, which increases as the market widens. The savings of profits leads to overinvestment in productive appliances, from which follow overproduction, fall in prices, and depression. The depression displaces labor, and the process increases the irregularity of employment. Reduction of profits also compels economies in manufacture and transport, the greater employment of improved machinery, and the invention of new processes. The increased productivity of capital causes a still greater reduction in prices and profits, and increases the tendency toward disorganization. It is from this situation that combination has been adopted as a means of escape.

204. The Incentives to Monopoly[14]

BY CHESTER W. WRIGHT

We have in modern capitalistic industry tendencies toward a widening of the market with increased localization and integration and a steadily enlarging scale of production accompanied by a growing fierceness of competition. The larger the concerns, the smaller their number, the greater their resources for carrying on a fight, the bigger the prize which goes to the winner, the fiercer becomes the competition and the more excessive its wastes. Add to this the difficulties arising from the small margin of profit, the more complicated and prolonged industrial processes, the wider market, and the large use of fixed capital—and finally add the extra gain which comes from the power of monopoly to extort exorbitant prices, and one understands the forces which are fundamentally responsible for the modern trust movement. The reason for many trusts may be found in more immediate causes, which, for the very reason that they are more immediate and obvious, have often appeared, to the public eye at least, as even more important.

It is doubtless true that a considerable number of trusts owe their origin to the profits which it was expected would accrue to the promoter who undertook the task of organizing the trust. This was especially the case in the promotion which went on during the years 1898 and 1901, when the money market and other conditions were particularly favorable; but it is not likely that we shall soon see a recurrence of such an era. There can be no question, however, that the lax corporation laws, many of which appear to have been especially designed to meet the promoter's needs, did enable him to make certain gains and to dispose of the securities put out at a somewhat higher price than would otherwise have been possible. Still, it must be borne in mind that the more fundamental causes for the growth of trusts were really at the bottom of even these gains.

Most prominent among the second group of more immediate causes for the growth of trusts—those which I call special privileges—are railroad favors, tariff duties, and patent rights. In former years railroad favors of one sort or another were doubtless given to many of the trusts. From time to time announcements have been made that these discriminations had been abolished; but frequently, as some later special investigation or prosecution re-

[14]Adapted from "The Trust Problem—Prevention versus Alleviation," in the *Journal of Political Economy,* XX, 578–581 (1912).

vealed the facts, it has been found that they still exist. However, the evil is undoubtedly much less frequent than formerly and today is at best but a minor factor. The tariff is probably of more importance as an aid to the trusts, though I am inclined to believe that its influence has been considerably exaggerated. Probably its chief effect is in enabling trusts, most of which would exist in any case, to exact somewhat higher prices for their products than would otherwise be possible. It should be noted, however, that it is the over-protective tariff which offers the chief incentive for the formation of trusts. It is because the duties are often so much higher than is necessary to maintain the industry that overproduction ensues and the domestic manufacturers are led to combine so as to secure the high profits made possible by the tariff. To enact duties of this character is to do nothing less than to offer a reward for forming a trust. The importance of patent rights as a basis for trusts probably deserves more attention than it has received.

The third group of minor causes for the growth of trusts includes certain methods of competition, notably factor agreements and discriminating prices. Under such agreements the manufacturer or wholesaler may sell his product on condition that the price which he fixes be absolutely maintained, or on condition that the retailer shall not deal in the competing product of any rival, or perhaps that he shall not sell such rival product below a certain price. Any concern putting out a product for which there is a considerable demand can use this system, especially the latter form, against its rivals with tremendous power and effectiveness. The practice of discriminating prices is also a powerful weapon for building up and maintaining monopoly control.

Closely connected with this is the power exercised by control of credit which is sometimes declared to be an important weapon of the trust. On this point it is impossible at present to speak decisively. Information is very difficult to obtain and usually conflicting. There is some reason to believe that a large concern with the close financial alliances which ordinarily accompany it may occasionally find itself in a position where it can control the credit obtainable by a rival at some crucial moment and through the power thus obtained may force that rival to capitulate, often at a heavy loss, as in the case of the Pennsylvania Sugar Refining Company. There may not be a money trust but apparently there are times when the power of centralized control over large masses of capital proves of great advantage to a big corporation.

205. Large-Scale Production and Monopoly[15]

BY CHARLES J. BULLOCK

In favor of the proposition that the tendency of large-scale production is to pass over into monopoly, three general lines of argument may be distinguished: (a) the contention that a consolidated enterprise possesses advantages over independent companies in producing and marketing its goods; (b) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competitors from entering the field; (c) the belief that modern competition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive. As our discussion proceeds it will become evident to the reader that all of these arguments can be employed, with consistency, only by those who believe that the competitive régime is to be replaced by an era of monopoly.

First in this list is the contention that a consolidated concern is a more efficient agent of production and exchange. Thus it is claimed that trusts, by filling orders from the nearest plant, can effect a great saving in cross-freights. Data upon this question are available in the recent Bulletin of the Department of Labor. Of the forty-one combinations reporting, twenty-seven failed to answer this question, nine claimed a saving from this source, and five stated that there was no gain. Of the nine reporting a saving, the Bulletin states the amount only in three cases; and in two of these the item of cross-freights was combined with other economies, the aggregate sums being $400,000 and "considerably over $500,000." This, be it remembered, is the trusts' own showing, and is certainly not an underestimate. The reason for these comparatively small results is not difficult to discover. When the monopolized product is of a bulky sort, the industry is already localized pretty thoroughly before combination takes place; and, since most of the former independent establishments were producing chiefly for their natural local constituencies, the trust can save little in cross-freights. When, however, the product is light, transportation charges become a matter of small moment. In either case the room for saving in cross-freights is not nearly as large as has been represented, while often it does not exist.

Then it is urged that a trust can draw upon all the patented devices of the constituent companies, and employ only those that

[15]Adapted from "Trust Literature: A Survey and a Criticism," in the *Quarterly Journal of Economics,* XV, 190–210. Copyright (1901).

are most efficient. But advantages accruing from this fact will in most cases prove to be of a temporary nature, as trusts that have tried to base a monopoly upon the control of all available patents have learned in the past, and will learn in the future. Moreover, a simple reform in our patent laws will make the best processes available for all producers for any time that the public finds such a measure to be necessary for protection against monopoly. Here, then, we find no natural law working resistlessly towards combination, but a man-made device which can be regulated as public policy may dictate.

Again, we are told that a trust can produce more cheaply than separate concerns, because all the plants utilized can be run at their full capacity; whereas, under competition, many establishments can be kept in operation but a part of the time. Some observations may be made concerning this claim.

In general, it may be denied that, whenever governmental interference has not produced unhealthy and abnormal conditions, competition has led to such absurdly excessive investments as is commonly assumed. We must concede, however, that under normal conditions some reduction can be made in the number of plants required to supply the market at ordinary times; but this does not dispose of the matter. If a trust is to be prepared for supplying the market promptly in times of rapidly increasing demand, it is necessary that some surplus productive capacity must exist in periods of stationary or decreasing demand; for, as believers in the tendency to monopoly often remind us, many months, or even one or two years, are required for the construction of new plants. When this fact is taken into account, the case will stand as follows: except where the action of government has produced abnormal conditions, the capacity of competing establishments does not exceed the requirements of the market to any such degree as is commonly assumed; even a trust must provide for periods of expanding trade; even then, not all rival establishments suffer seriously from inability to find continuous employment for their plants, so that probably the advantages secured by the trust are of consequence only when the least fortunate or least efficient independent concerns are made the basis of comparison.

Again, we are reminded of advantages in buying materials or selling products. It is urged that a combination can purchase its raw materials more cheaply than separate concerns. No one doubts that a large company can often secure better terms than a small establishment; but it is not so clear that every trust can secure supplies more cheaply than large independent enterprises, unless

it is true that all combinations can arbitrarily depress the prices of the materials which they consume. Undoubtedly, this has been done by some of the trusts, although their partisans deny it; but such a saving represents no social gain, and sometimes it may be possible for would-be competitors to profit by the depressed condition of the market for raw materials.

And, finally, we come to economies in advertising and in soliciting business, where the wastes of competition are certainly serious and the room for improvement correspondingly great. Those who deny the tendency to monopoly generally admit that a trust can have a material advantage here, while those who affirm the existence of such a tendency evidently realize that their case is strongest at this point. Yet an opportunity for saving in these departments does not always exist, and the extent of the economy is easily exaggerated in other cases. Mr. Nettleton is right when he says: "But to what extent the trust organizers have counted on practically cancelling expenditure for these two items, on the ground that buyers will be obliged to come to the sole manufacturers, they are likely to be surprised. To an extent which few appreciate, the buying public has become accustomed to being reminded of its needs before making purchases. Except in staple and absolutely necessary commodities, demand is largely created and maintained by advertising through periodicals, catalogues, or travelling salesmen. Hence, the trust that expects to save the bulk of this important item must also expect to lose through diminished sales more than the economy represents. This is not theory, but the testimony of leading dealers in many lines."

We must now take into account certain counteracting forces, upon which some writers rest their belief that competition will ultimately prevail. These economists contend, in the first place, that, outside the field of the natural monopolies, the growth of a business enterprise is limited by the fact that companies of a certain size will secure "maximum efficiency" of investment, and that beyond this point concentration brings no increase in productive capacity. This position is based upon the belief that a factory of a certain size will enable machinery to be employed in the most advantageous manner; that a reasonable number of such plants will make possible all needful specialization of production; that allied and subsidiary industries can be, and are, carried on by large independent concerns; and that the cost and difficulties of supervision increase rapidly after a business is enlarged beyond a certain size, especially when it is attempted to unite plants situated in different parts of the country. For this reason, increased output does

not decrease the burden of fixed charges after a company attains a certain magnitude; but, on the contrary, new charges arise. Among such new expenses, not the least important are the cost of employing the most skilled legal talent to steer the combination just close enough to the law, the expenses necessary for "legislative" and "educational" purposes, and the outlays for stifling competition or the continual "buying out" of would-be rivals.

It is argued that an established monopoly will suffer actual loss from listless and unprogressive management. As the New York *Journal of Commerce* rightly insists, "It is not to be denied that such concentrations of management will be subject to countervailing offsets from the absence of the stimulus of competition; from the uncertainty about the management falling into the best possible hands; from the discouragement to invention which always attends monopoly, and from the possibility that the administration may be intrusted to 'friends' rather than to experts." As Professor Clark suggests, an established monopoly, secure in the possession of the markets of a large country "would not need to be forever pulling out its machines and putting in better," so that, as compared with countries where industry is upon a competitive basis, such a combination would fall behind in the struggle for international trade. In ruthlessly and unceasingly displacing expensive machinery with newer and better appliances, American manufacturers have probably led the world; but monopolies will inevitably feel reluctant to continue such an energetic policy of improvement. As combinations obtain a greater age, they will persist in old and established methods; while nepotism and favoritism, tending towards hereditary office-holding will replace the energetic management that some of the trusts now display.

Here we may refer to two of the alleged advantages of trusts. It is said that combinations develop abler management through the opportunity they afford for a specialization of skill upon the part of their officials, and that efficiency is increased by a comparison of the methods and costs of production in the various plants.

When it is contended that the "strength of the trust is that it gives the opportunity for the exercise of these highest qualities of industrial leadership," and that it gives us "a process of natural selection of the very highest order," we may question whether stock speculation and other causes lying outside the sphere of mere productive efficiency have not had more to do with the formation of recent combinations than demonstrated superiority in business management. And, it may be asserted that the establishment of permanent monopoly will interfere seriously with the future process

of selection. It must be remembered that the able leaders now at the head of the successful trusts were developed out of a field which afforded the widest opportunity for creative ability. The supreme qualities requisite for great industrial leadership are not likely to be fostered by a regime which closes each important branch of manufactures to new enterprise, and renders hopeless all competition with a single consolidated company. Will successive generations of bureau chiefs or heads of departments in long-established corporations be able to continue the race of masterful leaders, which freedom in originating and organizing independent industries has given us in the present age?

The second argument advanced to prove the tendency to monopoly is the claim that mere mass of capital confers such powers of destructive warfare as to deter possible competitors from entering the industry, at least until prices have long been held above the competitive rate. It is said that a large combination can lower prices below the cost of production in any locality where a small rival concern is established, thus driving it out of the field. Without doubt the destructive competition waged by combinations is an important consideration, and it may well enough re-enforce monopoly where other attendant circumstances favor consolidation. But a monopoly based solely upon this power would be, confessedly, a temporary affair; for probably no one would claim that all capitalists would be intimidated permanently by such circumstances.

The final reason for the belief that combinations must ultimately prevail is found in the character of modern competition in these industries which require heavy investments of fixed capital. Under such conditions the difficulty of withdrawing specialized investments and the losses that are entailed by a suspension of production make competition so intense that prices may be forced far below a profitable level without decreasing the output; and industrial depression inevitably follows.

In support of this line of argument, it is said that trusts are beneficial, because they can "exercise a rational control over industry," and "adjust production to consumption." Thus it is believed that commercial crises can be prevented, or, at least, that their worst effects can be avoided. But such arguments overlook the facts that a restriction placed upon production by a trust, especially if this is sufficient to raise prices above the competitive rate, may react injuriously upon other trades; and that monopoly profits, accruing to a small body of capitalists for a long period of time, must constitute a tax upon the body of the people that will affect the distribution of wealth in such a way as to reduce the consuming power

of the masses. A reduction in purchasing power thus produced would render excessive the existing investments in staple industries, and produce crises.

Not only is it doubtful whether monopoly is a wise method of regulating industry, but it is certain that the evils of competition are greatly exaggerated in some cases, while in others they are due to unhealthful conditions for which an interference with industrial freedom is responsible. In many other industries where trusts have been formed, the excessive investment of which writers complain was caused by the undue stimulus given by high protective duties and by the restriction of foreign competition. Competition is restricted by protective duties in most of the industries where combinations are formed; these duties increase the severity, and perhaps the frequency, of the fluctuations from which business suffers; then trusts, a further restriction of freedom, are advocated as a remedy for the ills caused by the initial interference with individual enterprise; and, finally, in order to regulate the trusts, an elaborate system of public supervision is proposed. Would it not be well to make a genuine trial of competition before condemning it for producing evils which are greatly increased by governmental interference with industrial freedom?

206. Monopoly and Efficiency[16]

BY LOUIS D. BRANDEIS

Earnest argument is constantly made in support of monopoly by pointing to the wastefulness of competition. Undoubtedly competition involves some waste. What human activity does not? The wastes of democracy are among the greatest obvious wastes, but we have compensations in democracy which far outweigh that waste and make it more efficient than absolutism. So it is with competition. The margin between that which men naturally do and which they can do is so great that a system which urges men on to action, enterprise and initiative is preferable in spite of the wastes that necessarily attend that process. I say "necessarily" because there have been and are today wastes incidental to competition that are unnecessary. Those are the wastes which attend that competition which does not develop, but kills. Those wastes the law can and should eliminate. It may do so by regulating competition.

It is, of course, true that the unit in business may be too small to be efficient. The larger unit has been a common incident of monopoly. But a unit too small for efficiency is by no means a

[16]Adapted from an article in *American Legal News*, XXIV, 8–12 (1913).

necessary incident of competition. It is also true that the unit in business may be too large to be efficient, and this is no uncommon incident of monopoly. In every business concern there must be a size-limit of greatest efficiency. What that limit is will differ in different businesses and under varying conditions in the same business. But whatever the business or organization there is a point where it would become too large for efficient and economic management, just as there is a point where it would be too small to be an efficient instrument. The limit of efficient size is exceeded when the disadvantages attendant upon size outweigh the advantages, when the centrifugal force exceeds the centripetal. Man's work often outruns the capacity of the individual man; and, no matter what the organization, the capacity of an individual man usually determines the success or failure of a particular enterprise, not only financially to the owners, but in service to the community. Organization can do much to make concerns more efficient. Organization can do much to make larger units possible and profitable. But the efficiency even of organization has its bounds; and organization can never supply the combined judgment, initiative, enterprise and authority which must come from the chief executive officers. Nature sets a limit to their possible accomplishment. As the Germans say: "Care is taken that the trees do not scrape the skies."

That mere size does not bring success is illustrated by the records of our industrial history during the past ten years. This record, if examined, will show that:

(1) Most of the trusts which did not secure monopolistic positions have failed to show marked success as compared with the independent concerns.

This is true of many existing trusts, for instance, of the Newspaper Trust, the Writing Paper Trust, the Upper Leather Trust, the Sole Leather Trust, the Woolen Trust, the Paper Bag Trust, the International Mercantile Marine; and those which have failed, like the Cordage Trust, the Mucilage Trust, the Flour Trust, should not be forgotten.

(2) Most of those trusts which have shown marked success secured monopolistic positions either by controlling the whole business themselves, or by doing so in combination with others. And their success has been due mainly to their ability to fix prices.

This is true, for instance, of the Standard Oil Trust, the Shoe Machinery Trust, the Tobacco Trust, the Steel Trust, the Pullman Car Company.

(3) Most of the trusts which did not secure for themselves monopoly in the particular branch of trade, but controlled the situation only through price agreements with competitors have been unable to hold their own share of the market as against the independents.

This is true, for instance, of the Sugar Trust, the Steel Trust, the Rubber Trust.

(4) Most of the efficiently managed trusts have found it necessary to limit the size of their own units for production and for distribution.

This is true, for instance, of the Tobacco Trust, the Standard Oil Trust, the Steel Trust.

Lack of efficiency is ordinarily manifested either

(1) in rising cost of product,

(2) in defective quality of goods produced, or

(3) in failure to make positive advances in processes and methods.

The third of these manifestations is the most serious of all. In this respect monopoly works like poison which infects the system for a long time before it is discovered, and yet a poison so potent that the best of management can devise no antidote.

Take the case of the Steel Trust. It inherited through the Carnegie Company the best organization and the most efficient steel makers in the world. It has had since its organization exceptionally able management. It has almost inexhaustible resources. It produces on so large a scale that practically no experimental expense would be unprofitable if it brought the slightest advance in the art. And yet: "We are today something like five years behind Germany in iron and steel metallurgy, and such innovations as are being introduced by our iron and steel manufacturers are most of them merely following the lead set by foreigners years ago."

The Shoe Machinery Trust, the result of combining directly and indirectly more than a hundred different concerns, acquired substantially a monopoly of all the essential machinery used in bottoming boots and shoes. Its energetic managers were conscious of the constant need of improving and developing inventions and spent large sums in efforts to do so. Nevertheless, in the year 1910 they were confronted with a competitor so formidable that the Company felt itself obliged to buy him off, though in violation of the law and at a cost of about $5,000,000. That competitor, Thomas G. Plant, a shoe manufacturer who had resented the domination of the trust, developed an extensive system of shoe machinery, which

is believed to be superior to the Trust's own system, which represents the continuous development of that Company and its predecessors for nearly half a century.

But the efficiency of monopolies, even if established, would not justify their existence unless the community should reap benefit from the efficiency; the experience teaches us that whenever trusts have developed efficiency, their fruits have been absorbed almost wholly by the Trusts themselves. From such efficiency as they have developed the community has gained substantially nothing. For instance:

The Standard Oil Trust, an efficiently managed monopoly, increased the prices of its principal products between 1895 and 1898, and 1903 to 1906 by 46 per cent.

The Tobacco Trust is an efficiently managed monopoly. Between 1899 and 1907 the selling price on smoking tobacco rose from 21.1 cents per pound to 30.1 cents; the profit per pound from 2.8 cents per pound to 9.8 cents. The selling price of plug tobacco rose from 24.9 cents per pound to 30.4 cents; the profit per pound from 1.9 cents to 8.7 cents.

The Steel Trust is a corporation of reputed efficiency. The high prices maintained by it in the industry are matters of common knowledge. In less than ten years it accumulated for its shareholders or paid out as dividends on stock representing merely water, over $650,000,000.

C. THE INFLUENCE OF MONOPOLY ON PRICE

207. The Law of Monopoly Price[17]

BY HENRY ROGERS SEAGER

Monopolists tend to fix those prices for their products which will yield the largest monopoly profits. What this means may be made to appear from a simple illustration.

Consider the case of a patented article in general use, like a special brand of soap. As a rule the expense of producing such an article diminishes as the number of units produced is increased. On the other hand, as the number of units offered for sale increases, the price that can be secured from each unit decreases. Suppose the volume of sales at different prices, the expense of production per unit for these different quantities sold, and the monopoly profits received are as represented in the table on the following page. It is clear that here the price that affords the maximum monopoly

[17]Adapted from *The Principles of Economics,* 219–221. Copyright by Henry Holt & Co. (1913).

profit will be ten cents. Until this price is reached the larger volume of sales and diminishing expense per unit more than counterbalance the loss due to lowering the price. Below ten cents the loss in price is no longer offset by these factors, although they continue to operate, and consequently profits decline. As the table indicates, monopoly price does not necessarily mean high price. In actual practice the margin of monopoly profit is likely to be quite small except for goods the demand for which is quite elastic.

Price	No. of Cakes Sold	Gross Receipts	Expense per Cake	Gross Expense	Profits
25 cents	400,000	$100,000	8 cents	$ 32,000	$ 68,000
20 "	600,000	120,000	7 "	42,000	78,000
15 "	1,000,000	150,000	6 "	60,000	90,000
10 "	2,500,000	250,000	5 "	125,000	125,000
9 "	3,000,000	270,000	$4\frac{6}{7}$ "	145,714	124,286
8 "	3,500,000	280,000	$4\frac{5}{7}$ "	165,000	115,000
7 "	4,000,000	280,000	$4\frac{5}{8}$ "	185,000	95,000

When a monopolist enjoys exclusive control of the monopolized good, he may fix the price at the point affording the maximum profit without fear of exciting competition. But few monopolists are so fortunately situated. Competition is an ever-present possibility. Prudence dictates usually a more conservative policy than that which would secure for the time being the largest monopoly profits. In the case above the price is likely to be fixed at something less than ten cents in the expectation that the present loss will be more than made good by the protection of the monopoly from future competition. In the same way fear of governmental regulation often checks the rapacity of monopolists long before such regulation is actually undertaken. The law of monopoly price thus indicates the extreme limit to which monopolists are likely to go in fixing prices and not necessarily the price that they will actually charge under the practical limitations which control their conduct.

In the case of many monopolized products there are different strata of demand, each controlled by somewhat different considerations. This may also be illustrated by reference to the demand for such an article as soap. Many consumers would prefer to pay fifty cents a cake for soap if they believed that by so doing they were getting a better article than their neighbors. Taking advantage of this fact, the shrewd monopolist offers several different grades for sale at different prices. That intended for the mass of consumers is put out under the firm name simply at the price—say ten cents—calculated to afford the maximum monopoly gain. Along with this is offered at a higher price—say twenty-five cents—the same article

colored a little differently or pressed into a different shape, which is designated "superior." A dash of inexpensive scent and a more elaborate wrapper transforms "superior" soap into "superfine" and insures a limited sale at fifty cents a cake. In this way not only a large margin of profit is secured on the supposedly better grades, but consumers are reached who would never think of buying plain, ordinary soap.

This practice is by no means confined to manufacturers of patented toilet articles. It is found in connection with nearly every kind of commodity which enters into personal consumption. Makers of bicycles and automobiles, manufacturers of patented foods and beverages, fashionable tailors and haberdashers, and many others recognize the opportunity for profit along this line, and conduct their business accordingly. The resulting complication in the theory of monopoly price is easily understood. Instead of making calculations relative to consumers' demand as a whole, the monopolist makes special calculations in regard to the extent and the intensity of the demand of each class of consumers.

The law of monopoly price may be summed up in the maxim, "Ask that price which is calculated to yield in the long run the maximum monopoly profit." To decide what that price is the monopolist must gauge the extent and intensity of consumers' demand both as a whole and as manifested by different classes. He must then calculate his own expenses of production for different quantities of the monopolized good. His first concern will usually be to put out the standard grade at a price which will afford the largest monopoly profit. If the demand is elastic this price is more likely to be moderate than high. Having fixed the price for the standard grade, the monopolist will consider whether it would not be profitable to offer superior, superfine, or other grades to particular classes of consumers at higher prices. In connection with each grade he must make a calculation similar to that originally made, and he must also consider how the sales of these superior grades will react upon the sales of the good of standard quality.

208. The Limits of Monopoly Price[18]

BY JOHN A. HOBSON

The real danger of Trusts in their control of prices appears when we consider the control in relation to the various classes of commodities which form the subjects of monopoly.

[18]Adapted from *The Evolution of Modern Capitalism*, new and revised edition, 230–233. Published by Charles Scribner's Sons (1906).

1. The urgency of the need which the commodity satisfies determines the height of the price which the monopolist can charge. Where a community is dependent for its life upon some single commodity, the monopolist is able to obtain a high price for the whole of a supply which does not exceed what is necessary to keep alive the whole population. Thus the monopolist of corn in a famine can get an exorbitant price. But if the supply is more than sufficient to enable everyone to satisfy the most urgent need of subsistence, the urgency of the need satisfied by any further supply falls rapidly.

The monopoly of a necessity of life is, therefore, more dangerous than any other monopoly, because it not merely places the lives of the people at the interest of traders but makes it of interest to such monopolists to limit supply to the satisfaction of the barest necessities of life.

Next to a necessity will come what is termed a "conventional necessity," something which by custom has been firmly implanted as an integral portion of the standard of comfort. This differs with different classes in the community. Boots may now be regarded a "conventional necessity," and a monopolist could probably raise their price considerably without greatly diminishing the consumption.

As we descend in the urgency of wants we find that the comforts and luxuries form a part of the standard of life of a smaller and smaller number of people. Since they satisfy intrinsically weaker needs, the demand for them is more likely to fall with a rise in price.

2. Closely related is the possibility of substituting another commodity for the one monopolized. This everywhere tempers the urgency of the need attaching to a commodity. There are few, if any, even among the commodities on which we habitually rely, that we could not and would not dispense with if their price rose very high. The incessant competition between different commodities for the satisfaction of the same need cannot be gotten rid of by a monopoly of one of them. Though to a modern society artificial light is much more important than cane sugar, a Sugar Trust may have a stronger monopoly than an Oil Trust, because the substitutes for cane sugar, such as molasses and beet-root, are less effective competitors than gas, candles, and electricity with oil.

The reverse consideration, the possibility of extending consumption and securing a wider market for an article by substituting an article of monopoly for other articles, has quite an important influence on price. The possibility of substituting oil for coal in cooking has a great deal to do with the low price of oil. A Trust will

often keep prices low for a season to enable their article to undersell and drive out a rival article. When natural gas was discovered in the neighborhood of Pittsburgh, the price was lowered sufficiently to induce a large number of factories to give up coal and burn gas. After expensive fittings were put in and the habit of using established, the gas company proceeded to raise the rates 100 per cent. When we ascend to the higher luxuries, the competition between different commodities to satisfy the same generic want, or even to divert taste or fashion from one class of consumption to another, is highly complicated, and tempers considerably the power of a Trust over prices.

In like manner the power over prices possessed by a company whose monopoly rests upon patent rights is limited by the ability of consumers to substitute other articles for the article in question. For instance, the price-control of the manufacturer of a patented corkscrew is qualified very largely, not only by competition of other corkscrews, but by screw-stoppers and various other devices for obtaining access to the contents of bottles.

3. There is also the influence of potential competition of other producers upon monopoly prices. The ability of outside capital to enter into competition will, of course, differ in different trades. Where the monopoly is protected by a tariff the possibility of new competition from outside is lessened. When the monopoly is connected with some natural advantage or the exclusive possession of some special convenience, as in mining or railways, direct competition of outsiders on equal terms is prohibited. Where the combination of large capital and capable management is indispensable to the possibility of success in a rival producer, the power of the monopoly is stronger than where a small capital can produce upon fairly equal terms. If the monopoly is linked closely with personal qualities and with special opportunities of knowledge, as in banking, it is most difficult for outside capital to compete effectively.

These considerations show that the power of the Trust over prices is determined by a number of intricate forces which react upon one another with varying degrees of pressure.

D. TYPES OF UNFAIR COMPETITION

209. Competitive Methods in the Tobacco Business[19]

BY MEYER JACOBSTEIN

The most familiar as well as the most effective device employed for stifling competition has been that of "local competition"—underselling a competitor in his own limited market while sustaining prices elsewhere. This device is feasible only for large companies that can make temporary sacrifices for the possibility of greater gains in the future. In the early nineties, to check the sale of "Admiral" cigarettes manufactured by an independent concern, the American Tobacco Company offered its leading brand, "Sweet Caporal," at cost, but only in regions where the Admiral was being successfully marketed. The independent concern surrendered soon afterward. In 1901, the American Tobacco Company was selling "American Beauty" cigarettes for $1.50 per thousand, less two per cent discount for cash, when the revenue tax alone was $1.50 per thousand. This was done, however, only where an independent company had succeeded in marketing its most popular brand, the "North Carolina Bright." New York jobbers found that by purchasing their cigarettes from North Carolina jobbers, after paying a slight premium in addition to freight charges, they would pay less for them than by buying direct from the Trust in New York City.

The local competition which helped to build up the Cigarette Trust was practiced in the sale of other products. During the struggle for the plug market between the Continental and Liggett & Myers, the former was offering its "Battle Ax" brand for thirteen cents a pound, which was below the cost of production, since the tax was six cents and the raw leaf seven cents a pound. After the independent concern was absorbed, "Battle Ax" rose to thirty cents a pound. By similar methods the trust has won extensive markets in England and Japan.

An instrument frequently employed to make local competition effective is the "Factors' Agreement," whereby the jobber is offered special rebates for agreeing to handle Trust goods exclusively, or to boycott independent brands. While a 2½ per cent commission was allowed jobbers who did not discriminate against Trust goods, 7½ per cent was given to those who handled Trust goods exclusively. Frequently orders from concerns carrying in stock independent goods were not filled. The Factors' Agreement is especially potent

[19]Adapted from *The Tobacco Industry in the United States,* 117–121. Copyright by the author. Published in the Columbia Studies Series (1907).

in crushing any new competition in markets already controlled b the Trust, for the jobber is loath to risk his assured profits, derive from the sale of established Trust brands, in exchange from th doubtful income from new, independent goods.

A closely allied device is that known as "Brand Imitation." Thi is a most direct form of destructive competition: it consists of sellin at reduced prices brands which are apparently imitations of popu lar brands of independent manufacturers. An instance of this i the marketing at a low figure by the Trust of the "Central Union smoking tobacco in direct competition with the "Union Leader" o an independent concern. The Trust distributed its "Central Union free to jobbers in order to ruin the "Union Leader." It was nc until the reputation of the independent brand had been seriousl damaged that the courts enjoined the Trust from further free dis tribution. Similarly the Trust marketed at a low price a brand i imitation of the "Qboid" tobacco manufactured by Larus & Brother As value of a brand is one of the important assets in the tobacc trade, these methods are very ruinous to independent manufacturer who cannot withstand a persistent attack from the Trust.

Another device is the use of the coupon system, whereby the con sumer receives a premium certificate equivalent to a 10 per cent re bate. The coupon system is especially valuable in the tobacco trad because it serves as a substitute for the cutting of prices, the latte being difficult, owing to the existence of conventional and conven ient prices, five cents and multiples of five. It is more feasible t give coupons than to reduce a five-cent cigar to four cents. Sinc much of the tobacco trade is transient, the successful operation o the premium plan depends upon a wide distribution of stores tha offer the coupons, as through a chain of retail agencies like th United Cigar Stores.

210. Competitive Methods in the Cash Register Business[20]

BY HENRY ROGERS SEAGER

The specifications in the indictment against the National Cas Register Company, on the basis of which twenty-seven of its officer were found guilty by a jury in February, 1913,[21] indicate in a concret

[20]Adapted from *The Principles of Economics*. 453–455. Copyright b Henry Holt & Co. (1913).

[21]In June, 1915, the Supreme Court of the United States refused to sus tain an appeal from the decision of a higher federal court reversing th decision of the lower court referred to in the text, and acquitting the offi cers of the National Cash Register Company. This closes the case agains them.—EDITOR.

way the kind of practices in which some of the trusts engaged. They were:

1. It bribed the employees of competitors to reveal the secrets of the competitors' business. By this means it obtained knowledge of prospective buyers of cash registers, of those who had purchased them but had not fully paid for them, of the volume of business being done by the competitors and the places in which it was being done, of inventions and applications for patents by the competitors, and of their financial condition and connections.

2. It bribed the employees of truckmen, express companies, railways, telegraph and telephone companies to reveal information in regard to the shipping of cash registers by competitors, and in regard to the communication between the competitors and their agents and customers.

3. It used its influence with banks and other institutions, sometimes going to the extent of making false statements to injure the credit of competitors in order to prevent their securing money for carrying on their business.

4. It required its sales agents to interfere in every way with the sales of competitive cash registers. The means used included the making of false statements with regard to the registers themselves, as well as false statements reflecting injuriously upon the business, character, and financial credit of its competitors.

5. It offered to sell to prospective purchasers of competitive cash registers the National's machines at much less than the standard prices and upon unusually favorable terms.

6. It induced persons who had already ordered competitive cash registers to cancel their orders and purchase from the National, by making further reductions in the price of National registers equivalent to the amount already paid in on the purchase of the competitive cash registers. It induced persons who had already bought other registers to exchange them for the machines of the National, whereupon it exhibited in the windows of stores where National machines were for sale these machines with placards containing the word "Junk," or the words "For Sale at Thirty Cents on the Dollar."

7. It offered for sale to prospective purchasers of other machines cash registers made in imitation of those others at prices even lower than manufacturer's cost. These thus offered for sale were known as "knockers." The manufacture of a particular type of "knocker" was discontinued as soon as its use was no longer necessary.

8. It sometimes offered for sale "knockers" having weak and defective mechanism. This practice had two purposes. It enabled the sales agent to point out the weak and defective mechanism and

to claim that the competitive cash register had the same shortcomings. It also enabled him, in case the customer insisted upon purchasing the "knocker," to persuade the customer to purchase a genuine National machine when the "knocker," as was inevitable, speedily broke down.

9. It instructed its sales agents secretly to weaken and injure the internal mechanism and to remove and destroy parts of competitive cash registers in actual use by purchasers whenever they could get their hands upon them. The object was evidently to cause the purchaser of a competitive cash register to become dissatisfied and to turn to the National to replace it.

10. It threatened competitors and purchasers of competitors' machines with suits for infringement of the National's patent rights, when no such right existed, and no such suit was contemplated.

11. In other cases it began suit against competitors and against purchasers of competitive cash registers for infringement when it was well known that there was no ground for such suits and when there was no intention of pressing the suits beyond the point necessary to harrass the competitors.

12. It organized cash register manufacturing concerns and sales concerns ostensibly as competitors of itself, but in fact as convenient instruments for gaining the confidence and obtaining the secrets of competitors.

13. It induced, by offers of largely increased compensation, the agents and employees of competitors to leave the employment of the competitors to enter that of the National.

14. It applied for patents upon the cash registers of competitors and upon improvements upon those cash registers merely for the purpose of harrassing the competitors by interference suits and threats to institute such suits.

211. The "Tieing" Agreement[22]

BY W. H. S. STEVENS

Perhaps the most interesting of any of the methods of unfair competition is the requirement that, in order to obtain certain articles, a concern shall lease, sell, purchase, or use certain other articles. The successful imposition of such requirements is usually most destructive to competition; and not infrequently it may be suppressed altogether. Though conditions of this character show variety, they may be discussed under three heads:

[22]Adapted from "Unfair Competition," in the *Political Science Quarterly*, XXIX, 291–299. Copyright (1914).

1. The purchase or lease of articles upon which the patents have expired, as a condition of obtaining patented articles.

The "tieing" clauses in the leases of the United Shoe Machinery Company furnish an example of this. A "tieing" clause may be described as a provision that a given machine must be used in conjunction with another or other machines. Sometimes the Shoe Machinery Company leases together two patented articles. In certain other cases the leases have tied to patented machines others upon which the patents have expired. The effect of the latter type of clause was described by a witness before a congressional committee: "At the present time a very large proportion of the important basic patents have expired, and but for the restrictions imposed upon us by their leasing system we should today be exercising our undoubted right to use, without royalty, a large part of the machinery now employed."

The Crown Cork & Seal Company, of Baltimore, manufactures more tin caps for bottles than does any other concern in the United States. The same concern also controls patents upon a certain device known as the Jumbo capping machine. None of the machines is sold. They are leased to brewing and bottling establishments under agreements which provide that the "said machines shall be used only in connection with Crown corks purchased by the lessee directly from the lessor." The patents on the caps expired years ago. The lease attempts to compel bottlers to purchase all caps from the Crown Cork & Seal Company.

The theory which underlies the grant of a monopoly in a patent is that human progress is promoted by the gift to inventors for a term of years of the exclusive property in their inventions. At the end of the period it is intended, however, that the inventions shall become the property of the public. Theoretically any concern may begin the production of an article previously patented as soon as the term of the patent expires. Actually it may be unable to do so. Conditional requirements may so destroy the market that even if the goods were produced there would be no customers to purchase. This precise situation seems to have developed through the "tieing" clauses of the Shoe Machinery Company applying to patents.

2. The use of certain patented articles as a condition of obtaining other patented articles.

The contracts of the Shoe Machinery Company require that a given patented machine must be used in conjunction with another patented machine. Under free competition the relative productive efficiency of various machines produced by various concerns would determine to a nicety the reward belonging to each patentee. As it is, a machine more efficient than the United's machine for the work

it is designed to perform might have no market and bring in no royalties to its patentee. A similar case is that of the Motion Picture Patents Company, which, by virtue of its film control, has endeavored to compel the use of motion pictures containing one or more of the patents which it controls.

3. The purchasing, selling, or handling of a certain article or line of articles as the condition of the purchase or handling of another article or line of articles.

The Commissioner of Corporations in his report on the International Harvester Company has used the term "full-line forcing" to describe "the practice of requiring dealers to order new lines as a condition of retaining the agency for some brand of the company's harvesting machines."

A restriction of similar character is charged by the government in its suit against the American Coal Products and Barrett Manufacturing companies. These concerns are supposed to have a very substantial control of the pitch made from coal tar. Some purchasers and users of roofing materials have been required to buy one ton of felt to every two tons of pitch.

212. Monopoly Control of Cost Goods[23]

BY W. H. S. STEVENS

Attempts to acquire the control of the machinery necessary to the manufacture of a particular line of goods are by no means unknown. Following its organization in 1890 the old American Tobacco Company, by securing and maintaining for some time the exclusive control of the most successful cigarette machinery, was enabled to strengthen its dominant position in the business. At the time of its organization it acquired control of the Allison and the Emery machines, the patents of which belonged to firms entering the new combination. Soon afterward it made a contract for the exclusive use and control of the Bonsack machine. Thus it acquired control of the very best machines used in the production of cigarettes.

In 1913 the government brought suit against the American Can Company. That concern was charged with acquiring control of the principal can-making machinery plants of the United States, together with most of the valuable patents for making that machinery. In some cases this result was accomplished through long-term contracts

[23]Adapted from "Unfair Competition," in the *Political Science Quarterly*, XXIX, 469–475. Copyright (1914).

with patentees for controlling the disposition of the machinery manufactured under their patents; in others by the purchase of licenses which the owners of the patents had issued to the manufacturers of cans; in still others by obtaining contracts not to sell such machinery to other parties.

Somewhat different are cases in which control is acquired of the articles or materials which enter into the manufacturing process. The greater part of the supply of raw paper used in the manufacture of photographic papers throughout the world is said to be in the hands of the General Paper Company of Germany. Prior to 1906, when the control of this company was almost complete, the General Aristo Company, which is controlled by the Eastman Kodak Company, is alleged to have contracted to purchase the entire supply of raw paper exported by the General Paper Company to the United States. This contract, it is claimed, was continued from 1906 to 1910. Testimony before the Industrial Commission is to the effect that the Photographic Supplies Combination first secured control of raw paper imported from Germany about the year 1899.

The government has charged the Aluminum Company of America with endeavoring to obtain such a control of the bauxite properties of the United States as would prevent anyone but itself from producing metal aluminum. Prior to 1905, the Aluminum Company of America possessed valuable bauxite properties, yet it did not approach control of even 50 per cent of the total bauxite supply of the United States. In that year, however, the company through the General Chemical Company acquired the capital stock of the General Bauxite Company. As part consideration for this contract, the General Chemical Company agreed that it would not use or sell bauxite sold to it by the General Bauxite Company for conversion into metal aluminum, but would use it solely for the manufacture of alum, alum salts, alumina sulphate, and similar products. In 1909 a contract was made with the Norton Chemical Company for the purchase of the bauxite properties of the Republic Mining & Manufacturing Company, whose capital stock was owned by the Norton company. In considering these contracts made by the Aluminum Company of America, it should be borne in mind that this organization is alleged to control nearly one-half of the stock of the Aluminum Castings Company, 37 per cent of the stock of the Aluminum Goods Manufacturing Company, and to be sole owner of the stock of the Northern Aluminum Company and the United States Aluminum Company, manufacturers of aluminum cooking utensils.

E. THE GOVERNMENT AND MONOPOLY

213. Law and the Forms of Combination[24]

BY BRUCE WYMAN

Notwithstanding all the law against agreements in restraint of trade, the present generation has seen the greatest movement toward consolidation which is recorded in economic history. But this was not accomplished without a reckoning with the law. In the face of adverse law the ingenuity of attorneys, acting for clients who wished to bring about a community of interests, has been taxed to the utmost; and at best their schemes have proved only temporary expedients. In this era of consolidation there has been a change of base at least four times: first, the pool—a direct agreement between the corporations concerned for their joint operation to a certain extent; second, the trust—an indirect arrangement between the shareholders to control the actions of their corporations; third, the holding company—a central company to hold the shares of the constituent companies; and, fourth, the single corporation, which buys the properties of the competing corporations outright. Yet, despite these various forms, the problem as to how various corporations may be concentrated under one control is still to a large extent unsolved.

There was never real legal expectation of the success of any form of pooling. There was too much express authority against combinations in restraint of trade for that.

Perhaps every member would live up to his agreement; but there was no remedy at law if anyone did not. Perhaps the proceeds of the pooling would be fairly divided; but the court would not order an accounting. And experience showed again and again that, without legal obligation, there were always members in any such pool treacherous enough to break it. Moreover, there was the corporation law to reckon with which has always held it contrary to policy for corporations to surrender their independence by entering a pool. The courts have held that for no purpose, legal or illegal, could corporations be members of a partnership; that they could not carry on their business in common.[25]

It is further to be noted that when a combination in restraint of trade is once proved to be such, outlawry is declared. It can bring no suit against those in it; neither can they sue it. The courts will have nothing to do with either association or associates. This is the penalty, that the loss must lie where it falls; and this policy is in

[24]Adapted from *Control of the Market,* 142–164. Copyright by the author. Published by Moffat, Yard & Co. (1911).

[25]*Mills* v. *Upton,* 10 Gray 582; *Mallory* v. *Hanaur Oil Works,* 86 Tenn. 596.

itself often one of the strongest of deterrents. Thus any member of the association may withdraw when it suits his interest to do so, a result that minimizes the harm that such a combination may effect. For experience shows that the result is that competition goes on surreptitiously, despite the agreement, since every active member is strengthening his position in preparation for an ultimate withdrawal. And at the psychological moment some member, who has accumulated a large stock while production has been curtailed, will sell out at near to the top price and break the market, thus causing his associates irreparable losses.

Such was the state of the law when the trust agreement was discovered by a startled community. The features of this scheme are well known. All the shares of the capital stock of all the confederating corporations are transferred to a board of trustees. These issue trust certificates in lieu of these shares, thus reserving the voting rights in all the corporations. As a cover for the scheme all of the corporations remain in existence; and in form each conducts its own business without any cross agreements among themselves.

From the point of view of those who had on foot a scheme to monopolize, this trust device was excellent. It was centralized in its control and secret in its doings. It left the power of control with the inner circle, while enabling them to market as many securities as they pleased. But adverse court decisions robbed the agreement of its effectiveness.[26] It was held against the law governing corporations in that it was beyond its powers for a company thus to surrender its independence. It was also a void arrangement by the law against combinations in restraint of trade. The courts looked through the outer forms into the inner facts. This was fortunate for from the point of view of the state the scheme was almost beyond control as its accounts could be juggled and responsibility for wrongdoing could not be fixed.

A transition period of a few years followed upon the dissolution of the trusts. The original owners still had the properties; and the common danger held them together, temporarily at least. Meanwhile the lawyers were casting about for some new scheme for combining interests that would have legal sanction. The first schemes were rather obvious attempts to make use of some established arrangement as a cover for combination. Rather absurd these were, doomed to early exposure from the outset. What could not be done directly could not be brought about by indirection. The imperative need was a device that would stand the test of legality. It is true that without legal sanction much may be done under a gentleman's

[26] *People* v. *North River Sugar Refining Company,* 121 N. Y. 582; *State* v. *Standard Oil Company,* 49 Ohio St. 137.

agreement; but without legality in organization there is no security. Nor can there be any permanence unless the arrangement is perpetual. And, further, without security and permanence, there can be no issue of securities or market for them.

Eventually there was evolved the idea of a holding corporation, a new central body which should acquire a majority of the stocks of the constituent companies. The holding company possessed possibilities of manipulation pleasant to contemplate; the marketable issues could be doubled by making the stock of the holding corporation twice that of the constituent companies; and since the operation of the business could be concealed between the accounts of the holding company and the constituent companies, there would be nothing to fear from the publication of formal statements.

There were obviously legal difficulties. In most states by the common law it was beyond the powers of one corporation to hold the stock of another for the purpose of operation. In some states, however, statute law or special charter permitted corporations to be organized to hold the stocks of other corporations. But this was at best a solution of only one of the difficulties; another remained. Granted that the corporation was enabled to act without violation of the corporation law, there was the anti-trust law still to reckon with.

So it came to be recognized that there was a safer way, if one chose to take it. The approved form among lawyers during the last few years for making a consolidation of interests is by the formation of a single gigantic corporation intended to take over by purchase all the different concerns that are to be brought together. It has been ruled that "corporations are empowered to purchase, hold, and use property appropriate to their business. Under such powers it is obvious that a corporation may purchase the plant and business of competing individuals and concerns."[27] But this is not unquestioned law by any means. A court of equal authority has said, "There is no magic in a corporate organization which can purge the trust scheme of its illegality, and it remains as essentially opposed to the principles of sound public policy as when the trust was in existence. It was illegal before and is illegal still, and for the same reasons."

From step to step in this succession there is a movement toward integration. Now that the end of economic evolution has been reached in a single corporation, the law against combinations in restraint of trade may perhaps cease to operate. Now the state may impose such special regulation upon these industrial concerns as the situation requires. The problem is therefore much simplified since the time of the trusts. It has been reduced to its lowest terms by

[27] *Trenton Potteries Company* v. *Oliphant*, 58 N. J. Eq. 507.

the activity of the law in insisting that all combinations of every stripe should be destroyed. The question then emerges, Shall these great corporations be destroyed or shall they be regulated? That, it is submitted, is the trust problem in its latest phase.

214.—The Sherman Anti-Trust Act[28]

Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 3. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any territory of the United States or in the District of Columbia, or in restraint of trade or commerce between any such territory and another, or between any such territory or territories and any state or states or the District of Columbia, or with foreign nations, or between the District of Columbia and any state or states or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any circuit court of the United States in the district in which the

[28]From 26 U. S. Statutes 209 (1900). There are eight sections. The five sections given here form the essential part.

defendant resides or is found, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the costs of the suit, including a reasonable attorney's fee.

Section 8. That the word "person" or "persons," wherever used in this act, shall be deemed to include corporations and associations existing under or authorized by the laws of the United States, the laws of any of the territories, the laws of any state, or the laws of any foreign country.

215. The Meaning of Restraint of Trade[29]

In substance, the propositions urged by the Government are reducible to this: That the language of the statute embraces every contract, combination, etc., in restraint of trade, and hence its text leaves no room for the exercise of judgment, but simply imposes the plain duty of applying its prohibitions to every case within its literal language. The error involved lies in assuming the matter to be decided. This is true because, as the acts which may come under the classes stated in the first section and the restraint of trade to which that section applies are not specifically enumerated or defined, it is obvious that judgment must in every case be called into play in order to determine whether a particular act is embraced within the statutory classes and whether, if the act is within such classes, its nature or effect causes it to be a restraint of trade within the intendment of the act. To hold to the contrary would require the conclusion either that every contract, act, or combination of any kind or nature, whether it operated a restraint on trade or not, was within the statute, and thus the statute would be destructive of all right to contract or agree or combine in any respect whatever as to subjects embraced in interstate trade or commerce, or if this conclusion were not reached, then the contention would require it to be held that as the statute did not define the things to which it related and excluded resort to the only means to which the acts to which it relates could be ascertained—the light of reason—the enforcement of the statute was impossible because of its uncertainty. The merely generic enumeration which the statute makes of the acts to which it refers and the absence of any definition of restraint

[29]Adapted from the opinion of the court in the case of *The Standard Oil Company of New Jersey* v. *United States,* 221 U. S. 1 (1911). By this decision the Standard Oil Company of New Jersey was ordered "dissolved." The significance of the decision lies in the distinction made by the court between "reasonable" and "unreasonable" restraint of trade, and the insistence that the Sherman act was meant to apply to the latter exclusively. This is the subject of discussion in the selection given here. The Standard, of course, was found guilty of "unreasonable" restraint of trade.

of trade as used in the statute leaves room for but one conclusion, which is that it was expressly designed not to unduly limit the application of the act by precise definition, but while clearly fixing a standard—that is, by defining the ulterior boundaries which could not be transgressed with impunity—to leave it to be determined by the light of reason, guided by the principles of law and the duty to apply and enforce the public policy embodied in the statute in every given case, whether any particular act or contract was within the contemplation of the statute.

216. Dissolution of the Standard Oil Company

Standard Oil Company (of New Jersey)
26 Broadway,
New York, July 28, 1911.

To the Stockholders of the
Standard Oil Company (of New Jersey):

Obedience to the final Decree in the case of the United States against the Standard Oil Company (of New Jersey), and others, requires this Company, to distribute, or cause to be distributed, ratably, to its stockholders the shares of stock of the following corporations, which it owns directly or through its ownership of stock of the National Transit Company, to wit: Anglo-American Oil Company, Limited; The Atlantic Refining Company; Borne-Scrymser Company; The Buckeye Pipe Line Company; Chesebrough Manufacturing Company, Consolidated; Colonial Oil Company; Continental Oil Company; The Crescent Pipe Line Company; Cumberland Pipe Line Company, Incorporated; The Eureka Pipe Line Company; Galena-Signal Oil Company; Indiana Pipe Line Company; National Transit Company; New York Transit Company; Northern Pipe Line Company; The Ohio Oil Company; The Prairie Oil and Gas Company; The Solar Refining Company; Southern Pipe Line Company; South Penn Oil Company; South West Pennsylvania Pipe Lines; Standard Oil Company (California); Standard Oil Company (Indiana); The Standard Oil Company (Kansas); Standard Oil Company (Kentucky); Standard Oil Company (Nebraska); Standard Oil Company of New York; The Standard Oil Company (Ohio); Swan & Finch Company; Union Tank Line Company; Vacuum Oil Company; Washington Oil Company; Waters-Pierce Oil Company.

Such distribution will be made to the stockholders of the Standard Oil Company (of New Jersey) of record on the 1st day of

September, 1911; and, for that purpose, the transfer books of the Company will be closed on the 31st day of August, 1911, at 3 o'clock P. M., and kept closed until the date when said stocks are ready for distribution, which it is expected will be about December 1, 1911.

Notice of the date when said stocks are to be distributed and of the re-opening of the books will be duly given.

Yours very truly,

H. C. Folger, Jr.,
Secretary.

217. The Result of the Dissolutions[30]

BY ARTHUR JEROME EDDY

Everybody knows what disintegration means, it means dissolution—"smashing 'em," in the language of the street.

The Standard Oil Company has been disintegrated into some thirty-five, more or less—chiefly less—independent and supposedly competing companies.

The Tobacco Company has been disintegrated into fourteen, more or less, independent and—supposedly—competing units.

The net result to the public so far has been higher prices for many of the products of the one and no lower prices for any of the products of the other.

The net result to many small stockholders has been losses.

The net result to "insiders"—the men against whom public clamor was raised—has been golden opportunities for profit in the buying and selling of subsidiary stocks long before stockholders and the public could possibly form any accurate notions of their real value.

To illustrate—when the Standard Oil Company of New Jersey—the trust—was dissolved by order of court the stockholders of that company received pro rata fractional interests in all the subsidiary companies, and for the first time thousands of men and women all over the country learned of the existence of those thirty-five companies. By no possibility could these scattered stockholders form accurate opinions regarding the values of the fractional shares issued to them; only the men in control of the industry were in a position to know. What has been the result? The stockholders and public have sold and bought in ignorance, losing both ways.

[30]Adapted from *The New Competition*, 258–260. Copyright by D. Appleton & Co. (1912).

Take the Standard Oil Company of Indiana, one of the subsidiary companies. It was capitalized at $1,000,000; the amount cut no figure so long as all its stock was held by the trust, but when the trust was dissolved its many stockholders received each his fractional pro rata share in the Indiana Company. There was a general impression the stock of this company was worth far more than par, but how much? Only the insiders could tell. As a result many stockholders who were in the dark sold their interests at less than a fifth of what the stock sold for inside a few weeks.

A few days ago the Indiana Company voted to increase its capital stock from one million dollars to thirty millions and to distribute the $29,000,000 to its stockholders as a stock dividend, and it now appears that the company is earning at least ten millions a year, or 33 1/3 per cent on the new capitalization, but it is stated in the press the "officers refuse to give any information on this point."

Disintegration of trusts and large corporations simply because they are large is a senseless proposition, because both are here to stay in some form. The Sherman Law was passed in 1890. For more than ten years few attempts were made to enforce it against large corporations. Then, in response to popular clamor, due to many flagrant abuses, came a period of indiscriminate "trust-busting." Already there are signs of reaction; the pendulum is swinging back; it is found the Sherman Law hits large and small, good and bad, labor unions and capital unions alike.

218. An Appraisal of the Sherman Act[31]

BY ALLYN A. YOUNG

The Sherman act is a general statute, declaratory of public policy. As such it must be judged by (1) the soundness of the policy which it declares, (2) the accuracy and completeness with which it declares that public policy, and (3) the adequacy of the mechanism which it provides for making that policy effective.

1. There can be little doubt that the public policy which the act was intended to embody is that competition should be maintained, artificial monopoly destroyed, and its growth prevented. It is clear from the debates attending its enactment that its hostility toward large industrial combinations was especially directed against (1) their supposed power over prices and (2) their aggressive suppression of competition. Whatever the economic advantages of

[31]Adapted from "The Sherman Act and the New Anti-Trust Legislation," in the *Journal of Political Economy*, XXIII, 213–220 (1915).

monopoly may be, there will be little question of the soundness of the policy which attempts to deprive it of its power for evil in these two particulars.[32]

2. Is the Sherman act an accurate expression of the public policy which it seeks to declare? If by accuracy is meant precision, it has little of it. It was, in its inception, a lawyer's statute, speaking in the language of the common law. At the time it was evident that it would be difficult for Congress to come to an agreement on particulars. Moreover, its general phrases were chosen intentionally, we are told by one of its framers, in order that the responsibility of determining its exact scope might be left to the courts. For seven years its interpretation was uncertain. The decisions of the lower court were conflicting, and the Supreme Court's holdings purely negative. Even after an utterance from this court, the words "restraint of trade" still remained to be defined, and in the next thirteen years the work of definition progressed only so far as the particular cases decided were typical of the classes of cases possible. The standard of public policy outlined in the Standard Oil decision was the first general criterion of the scope of the act. There is little doubt that the present interpretation of the statute is in harmony with the purposes which were in mind at the time of its enactment. There is now no question that if the purposes of combination are monopoly, they come within the condemnation of the act. There is no reason to think, for example, that price agreements and agreements to restrict output, whether of local or general scope, are not as illegal now as they have been at any time.

As a general expression of the public policy which it is supposed to embody the Sherman act is adequate. The difficulty is that it goes too far. In the first place, it is so worded that it is used as a weapon against strikes, boycotts, and other concerted efforts to

[32]Most of the more weighty discussions of the economic advantages of monopoly have to do with the effect of monopoly upon the aggregate production of wealth measured in terms either of subjective satisfaction or of objective commodity units. Even from this point of view the case for monopoly is exceedingly dubious and, at best, has a validity that is restricted and conditioned in many ways. Moreover such considerations are relatively unimportant compared with matters like the effect of monopoly upon distribution, upon the scope for individual initiative, upon economic opportunity in general, and upon a host of social and political relations. In short, it is a question less of the relative "economy" of monopoly or competition than of the kind of economic organization best calculated to give us the kind of society we want. Until our general social ideals are radically changed, it will take more than economic analysis to prove that it would be sound public policy to permit monopoly in that part of the industrial field where competition is possible.

interfere with the conduct of any business undertaking which ships its goods across state lines or to other countries. These things may be undesirable; very likely some of them are. But they are so far out of line with the other things condemned by the Sherman act, and in most instances have so little relation to "monopolizing" that they should be cut from the list of offenses condemned by the act. In the second place, the application of the Sherman act to railroads is inconsistent with the standards of public policy embodied in the Interstate Commerce act. We regulate railroad rates and services on the assumption that railroads are natural monopolies, and that combinations or rate agreements are inevitable. But at the same time we condemn railroad combinations and rate agreements, and, as in the New Haven case, bring criminal indictments against the men responsible for such combinations. From railroads we exact the observance of two mutually inconsistent standards of morality. The real evils in railway combinations are matters of corporation finance. These should be dealt with by statutes appropriate to the purpose; and the Sherman act should be so amended as to be relegated to its proper field of preventable industrial monopolizing.

Finally, there comes the question of whether even within the industrial field we want to prohibit monopoly as well as aggressive monopolizing. Probably a monopoly achieved merely by the superior efficacy of a formerly competitive business unit (if such were possible) would not be condemned by the courts as a violation of the Sherman act. And what is the status of a monopoly built up merely by the peaceful union of absorption of competitive units? In such a case on which side public policy lies it is hard to determine.

3. Does the Sherman act provide an efficient mechanism for achieving its own ends? That its criminal features have been relatively ineffective is generally admitted. Furthermore, it has been found in practice that it is very difficult to secure a criminal conviction from a jury for an offense so general, so abstract, so tainted with the general and customary imputation of immorality as "restraint of trade" or "monopolizing." There is no reason to believe that it will ever be easy to secure convictions for restraint of trade in cases where the several steps taken in the creation of the restraint are unobjectionable except as a part of a general scheme. As it is the statute provides only an indirect and uncertain way of penalizing unfair competitive methods. I see no reason why the criminal remedies of the Sherman act should be retained.

The proceedings in equity for the dissolution of a combination have, on the contrary, proved to be increasingly effective. It is contended by many that the enforced dissolution of a combination means generally a mere change in form; that we are merely hunting the quarry from tree to tree. But neither in transportation nor in industry does it clearly appear that the newer and more unified forms of consolidation would not have largely displaced the old, even if the movement had not been hastened by legislations and decisions under the common law. Among other things tending to this end are the various strategic advantages of the consolidated unit, and the permanency and dependability of the newer forms of combination, making possible the adoption of business policies based on long-time considerations. It is more than possible that after a long chase the quarry has at last been driven into a corner.

Is it proved that the mere dissolution of industrial combination accomplishes anything, especially in cases where the equities in the combination are made the basis of a pro rata distribution of the equities in its constituent parts? Only a few general conclusions can be stated: (1) The results must vary with the nature of the business and the degree to which the aggressive suppression of competition played a part in maintaining competitive conditions. (2) Dissolution rarely comes early enough—not until the monopolistic situation has become more or less crystallized. (3) The operation of the statute is intermittent. Dissolution should be carefully followed up, and every step in the process of restoring normal conditions should be carefully watched. This requires administrative machinery.

In its own field the Sherman act has a value all its own. No matter how carefully drawn the rules of the game may be, no matter how high the level set by the law of competition, new business conditions are bound to arise, not covered by specific statutes, and yet contrary to the generally accepted public policy of the maintenance of competition within its own proper field. The Sherman law, as a general declaration of public policy, has an elasticity and adaptability to new situations of all kinds not possible to legislation of a more specific sort. Its declaration of public policy is general enough so that it may gradually grow in meaning and change in application through judicial decision as the common law has grown and changed. So long as the preservation of competition in that large part of the industrial field in which it is feasible is public policy, why should we not, through such a statute, continue to give

the federal courts jurisdiction in cases involving the assertion of that public policy? But it needs amendment in the ways which have been indicated.

219. Provisions of the Clayton Act[33]

The Clayton act provides:

A. That it shall be unlawful for any person engaged in commerce to make discriminations in prices between different purchasers of commodities sold for use, consumption, or resale, where the effect of the discrimination may be substantially to lessen competition or tend to the creation of a monopoly.

B. That it shall be unlawful for any person engaged in commerce to lease, sell, or contract for the sale of goods, patented or unpatented, or to fix a price charged therefor, or discount, or rebate, upon such price, conditioned upon the lessee or purchaser thereof, not using or dealing in goods, of competitors of the lessor or seller, where the effect may be substantially to lessen competition, or tend to create a monopoly.

C. That no corporation shall acquire the whole or any part of the stock or other share capital of another corporation, or two or more corporations, where the effect may be substantially to lessen competition, to restrain commerce, or to tend to create a monopoly.

D. From and after two years from the date of the approval of the act:

1. No person shall be a director or other officer or employee of more than one bank organized under the laws of the United States if any one of them is above a certain size; and no private banker or person who is director in any bank or trust company organized under the laws of any state, and above a certain size, shall be eligible as a director of any bank or banking association incorporated or operating under the laws of the United States.

2. No bank organized or operating under the laws of the United States in any city, incorporated town, or village, of more than 200,000 inhabitants, shall have as director or officer or employee any private banker or any director or any other officer or employee of any other bank located in the same place.

3. No person shall be a director at the same time in any two or more corporations (other than banks and common carriers) engaged in interstate commerce, any one of which has capital, surplus, and

[33]Only a few of the provisions of the law are given, and these, because of their great length, are presented in summary form. The adaptation is that of W. H. S. Stevens, in "The Clayton Act," in the *American Economic Review,* V, 40–41. Copyright (1915).

undivided profits aggregating more than $1,000,000, if such corporations have been competitors so that the elimination of competition between them will constitute a violation of any of the provisions of the anti-trust laws.

220. The Trade Commission and Clayton Acts[34]

BY W. H. S. STEVENS

Two acts have recently been passed making important changes in the federal law as it applies to trusts and combinations. These measures are generally known as the Trade Commission Act and the Clayton Act.[35] With reference to this legislation the following conclusions may be drawn:

1. The Trade Commission is a body with wide powers of investigation and limited administrative authority.

2. Several of its investigatory powers have to a noticeable degree been previously exercised by the Bureau of Corporations or the Department of Justice. But the investigatory authority of the commission is considerably greater than that possessed in the past by both of these other agencies.

3. The commission is given powers of making recommendations to the Attorney-General for the readjustment of the business of corporations violating the anti-trust acts and also of ascertaining and reporting appropriate decrees in equity suits brought by or under the Attorney-General. But the exercise of these functions depends in the first place upon the application of the Attorney-General and in the second case upon the reference of the suit by the courts to the commission.

4. The Trade Commission act gave the commission a most important administrative authority in providing that the body should prevent unfair methods of competition. The Clayton measure further extended this authority in giving it jurisdiction to enforce the prohibitions against holding companies and interlocking directorates. It also gave it jurisdiction to prevent price discriminations and exclusive and tieing agreements.

5. The enforcement of the principal prohibitions of the Clayton act and of the unfair competition section of the Trade Commission act is entrusted to the commission by the following method of procedure. The commission conducts a hearing and makes an order against a practice, a review of which may be had by the party

[34]Adapted from "The Clayton Act," in the *American Economic Review*, V, 51–54. Copyright (1915).

[35]The former measure became a law when the President attached his signature to it September 26, 1914, and the latter on October 16, 1914.

against whom it is made in the Circuit Court of Appeals. If the order is not obeyed the commission applies to the same court for enforcement, and the jurisdiction of the court in both cases is exclusive and final.

6. A concurrent justification has been vested in the district courts to enforce the prohibitions against price discriminations, exclusive and tieing agreements, holding corporations, and interlocking directorates. Thus it is to be noted that there are two courts of appeal: the Circuit Court of Appeals when the Trade Commission makes orders against these practices, the Supreme Court when the district court enjoins them.

7. The new laws rely primarily upon contempt proceedings and the penalties therefor in enforcing their prohibitions.

8. The elimination of the criminal penalties from several sections of the Clayton act and the lack of any such provisions as punishment for unfair methods of competition clearly point to civil rather than criminal procedure as the remedy to be invoked in cases of violation of the principal prohibitions of the new legislation. This, coupled with the fact that the new laws provide for a Trade Commission with jurisdiction over the important prohibitions, points to a policy of administrative regulation of the trusts.

9. The powers given to the Trade Commission of classifying corporations and prescribing the form of reports are pregnant with possibilities. Through these powers it would appear possible for the Trade Commission to determine with some correctness the relative economic efficiency of competition on the one hand and combination and monopoly on the other. Even if no such broad determination can be arrived at for industry in general, it ought at least to be able to learn in what types and kinds of business the one or the other principle is the more efficient.

10. There are provisions in the new legislation in the direction of enabling individuals to protect themselves against loss or damage by reason of violations or threatened violations of the anti-trust acts. This embraces among other things a re-enactment, now applied to violations of any of the anti-trust acts, of the threefold damage clause of the Sherman act.

221. Ultimate Results of Regulating Combinations[36]

BY E. DANA DURAND

Few of those who have advocated the policy of permitting combinations to exist subject to regulation seem to have given thought

[36]Adapted from *The Trust Problem,* 46-59. Copyright by Harvard University (1914).

to the magnitude of the task, its difficulties, or its ultimate outcome. They have had in mind the comparatively few closely knit trusts of the present time; the so-called "good trusts" with their alleged superior efficiency and their more or less reasonable policy toward the public.

In the first place it would be difficult to limit the number of trusts under such a policy. It is, of course, conceivable that the government should undertake to suppress combinations in general while permitting a few trusts to exist. A limited number might be tolerated because of the special economic characteristics of the industries concerned which tended to make combination particularly economical. If, however, the people once concede the right of a monopolistic combination to exist, independently of extraordinary conditions, a sense of justice should apparently compel them to permit combinations *ad libitum*. Under no theory of justice could all the trusts heretofore organized be permitted to continue without granting permission to organize trusts in every other field.

In the second place, it would seem that if combinations having power to restrain trade are to be permitted at all, they must be permitted to become as comprehensive as they desire. Why should a combination not be allowed to take over 100 per cent of the business in its field quite as readily as 80 or 70 per cent? Few desire to prohibit combinations controlling only a small proportion of a given industry; but if we permit that limit to be overstepped at all, there is no limit. One can only speculate upon how numerous and how comprehensive the trusts and pools would become if the policy were adopted of permitting them freely but subjecting them to regulation. In all probability the number would become very great. Beyond question every combination, unless prevented by the government, would take in just as large a proportion of the trade as could be persuaded to enter it. In many cases this would mean the entire trade.

If corporations were freely permitted and no limit placed upon their magnitude, neither actual nor potential competition would be an adequate check upon prices and charges for service. Government regulation would unquestionably be necessary.

Some have suggested that regulation would be comparatively simple. Only bad trusts would be interfered with, and the fear of government intervention would make most of the trusts good. The government, some seem to think, could let the trust go its own way until it was proved to have become extortionate or to have used unfair methods, and could then step in and punish its officers, or sus-

pend its right to do business. But how is the trust manager to know in advance what prices and what practices will be adjudged so unreasonable as to call for criminal prosecution? What advantage would there be in breaking up a trust, if another trust could be formed in its place the next day? It would be intolerable to the users of its products and services to stop its business even temporarily. A good trust may become a bad trust overnight. Shall it be a lawful organization today and an outlawed wreck tomorrow? Regulation implies continuity of the combinations. Even if the government adopted the policy of punishing trust managers as a penalty for extortionate prices and unfair practices, this would require as thorough an investigation and as difficult a judgment as to determine the proper prices and practices for the future.

In its very essence, however, regulation implies, not punishment of past action, but prescription of future action. This means that the government, if it undertakes regulation of trusts, will ultimately have to fix their prices or limit their profits, or both. There is no way to insure reasonable prices under monopoly control, but to restrict them. If the government enters upon this policy ought it not to go a step further and guarantee to the combination a permanent monopoly, protecting them against competition? The public is coming to accept the view that justice to investors in public service industries demands protection against competition. If the investor in trust securities has had his profits held down by government regulation, it is hardly fair to permit those profits to be still further lowered, perhaps wholly destroyed, by the advent of a competitor.

Whatever might be the outcome of government regulation, there can be no doubt of the immense difficulty of just and efficient regulation of the prices or the profits of industrial combinations. The federal government and the states would have to maintain elaborate and powerful machinery to control the combinations. Consider the nature of the task which would confront an administrative body. In the first place, it would have to possess at all times detailed information regarding all the concerns under its jurisdiction. The prices of many commodities are necessarily variable. The cost of material may change greatly and rapidly. The conditions of demand are changeable. Grave injury might be done to the public during the time required for securing information on which to base action if such information were not already in the possession of the regulating authority.

In the second place, the amount of detail involved would be enormous. A proper fixing of prices would require complete

knowledge of the costs of production and of the amount of investment. To make information accurate, the government would have to prescribe the methods of accounting. It would be impossible to prescribe uniform methods as is done for the railroads. The bewildering variety of conditions in the different industries would have to be provided for. Detailed reports, based on these prescribed methods, would have to be made to the government, and these would have to be scrutinized and studied with the utmost care. The government would have to employ a vast corps of expert accountants, statisticians, and other specialists. The difficulties of cost accounting are so great that many of the large business concerns have found it impossible to ascertain the costs of their products on scientific principles. The business concern can get along without accurate knowledge of its own costs. The government, however, in fixing prices, must know all about cost, both operating costs and capital charges. They are the very things which primarily determine the reasonableness of prices.

In the third place, the determination of costs and investments for the purpose of fixing prices would involve immensely difficult problems of judgment. The judgment of the regulating body would be constantly challenged and the result would probably be endless litigation. The proper allowance for depreciation and obsolescence, the proper apportionment of overhead charges among different products and services, the proper methods of valuing the different elements in investment—these would have to be passed upon by the regulating authority. Such problems are difficult enough as they confront the Interstate Commerce Commission. They would be far more difficult for a body dealing with multifarious combinations in widely differing industries.

Even if the regulating authority should succeed in working out a satisfactory determination of costs of production and value of investment, it would still be beset with troubles in fixing prices or limiting profits. Demand for goods is variable even in non-competitive industries. Unchanging prices or prices bearing an unchanging relation to costs would not be practical in mining, manufacturing, and mercantile business. A combination might at times be justified in reducing prices below a normal level to stimulate demand and keep its force employed, or to meet foreign competition. The government would then have to determine how much prices could subsequently be advanced in order to offset these reductions. In other words, the government would be dealing with a constantly changing problem of demand. Particularly difficult would be the

fixing of proper prices for products produced at joint cost. Take petroleum for example. A wide variety of products are derived from the one raw material, crude oil. Some of these are in so little demand that they must be sold for less than the price of the crude oil itself. Others are in great demand and can be sold for high prices. It is impossible to use costs as a basis for determining prices of the specific products. For a regulating body to determine the proper relationships of the prices of these joint products is virtually impossible.

One could continue almost indefinitely setting forth the complexities and difficulties of government regulation of the prices and profits of combinations. A vague form of regulation will not do. It would be difficult to prove that the public would be any better off under a régime of half-regulated monopoly than under a régime of competition enforced as well as possible by laws against combinations and monopolies. Combination must be proved decidedly more efficient than competition before the people will be justified in trusting trusts under any but the most rigorous government control.

Government regulation of prices and profits always involves a large element of waste, of duplication of energy and cost. It means that two sets of persons are concerning themselves with the same work. The managers and employees of the corporation must study cost accounting and conditions of demand in determining price policy. The officers and employees of the government must follow and do it all over again. Moreover, the fact that the two sets of persons have different motives in approaching their work means friction and litigation, and these spell further expense. To superimpose a vast governmental machinery upon the vast machinery of private business is an extravagance which should be avoided if it is possible to do so.

The policy of government regulation of industry may readily become a stepping-stone to government ownership and socialism. The chances are strong that the government of the United States will take over the telegraphs and telephones in the near future and the railroads within less than a quarter of a century. If regulation by the government proves ineffective in securing reasonable rates, the general public will demand government ownership. If regulation proves so effective as to leave only moderate returns to the stockholders of the corporations, the stockholders are likely to urge government purchase, which would at least assure them a more certain income. In either case the excessive cost of government regulation will be urged as a reason for government ownership. In the

same way, if the government undertakes detailed regulation of combinations in manufacturing, mining, and trade, there is bound to be a strong movement for government ownership in these fields also.

Government ownership of this or that industry is not necessarily a bad thing. Even government ownership of a large proportion of the industries of the country, even complete socialism, need not necessarily affright us. It is sufficient to point out that the people ought not to enter on the path of permitting and regulating combinations without considering the advantages and disadvantages of this, the possible ultimate outcome, as well as those of the immediate policy itself. If it could be proved that combination is materially more economical than competition, we should doubtless be wise to say farewell to competition. Presumably in this case we ought to test thoroughly the practicability of government regulation of private monopoly before proceeding further. The people would naturally first try the plan of government ownership, if at all, in limited fields, and compare the results with those of regulated monopoly before undertaking general government ownership. It is by no means improbable that the ultimate outcome would be socialism. The future is very likely to see either a régime of general competition —with, of course, some special exceptions—or a régime of universal communism. Clearly, then, we should be very sure of our ground before we take the first step toward possible communism. We should convince ourselves beyond all doubt that competition is impossible; or that, if possible, it is less efficient than monopoly—not merely at certain times and in certain places, but generally and permanently—before we tolerate widespread combination in the field of business.

IX

THE PROBLEMS OF POPULATION

It is generally agreed to be desirable to use our powers of social control to eliminate, or greatly reduce, the grosser social evils, such as misery, poverty, vice, and crime. Perhaps the great majority of us would go farther, and use such powers in quite a positive way to make society conform more closely to our ideals. But we differ, as "reformers" have always done, as to methods. In general we belong to two schools, the one stressing control of "environment," the other control of "population." The former demands greater equality in the distribution of income, a bettering of living and working conditions, a state relief of the stress due to "economic insecurity," and like measures. The latter variously insists upon the reduction of numbers through "control of births," the restriction of immigration, and a "scientific breeding" of a "superior race" from the "eugenically fit." Some of the latter school emphasize quantitative, others qualitative, control of numbers.

The quantitative question has been much the more clearly appreciated. From the blessing "of the seed of Abraham" to England's recent imperative demand for "war brides," militaristic thought has always associated national greatness with a large population. A country in the stage of increasing returns places a high value upon sheer quantity of people, invites large families through its social conventions, and encourages its cities to boast of their numbers. It is only the presence or the anticipation of diminishing returns that causes a nation to see truth in the Malthusian spector of pressure of population upon the means of subsistence.

Half unconsciously, half deliberately, we of the United States have tried to realize our "national destiny" by exercising control over our numbers. But our problem has not until recently involved restriction of population. The movement for "smaller families and better" is one of a few decades, and it has affected only the more settled stocks. It cannot be said to have exercised as yet any general influence in restricting numbers. Our policy has been, on the contrary, one of increasing our population with mechanical rapidity, by supplementing a high, but falling, birth-rate with an extremely high rate of increase through immigration. By maintaining an "open door" we have allowed the population of the Western world slowly to adapt itself to natural resources considerably augmented by the addition of America. In the process of restoring an equilibrium throughout America and Europe as a single social entity, population has flowed to the regions where it has the highest value. The passing of the "old" and the coming of the "new" immigration shows that the leveling process in the Western world is well under way, and that Southeastern Europe is being brought within the common scheme of values. If immigration be left unrestricted, the "problem" will eventually disappear; but it will disappear because movement will no longer pay. This will come about when the lower level of material culture becomes dominant for the entity.

We have increased our population by immigration because we have needed numbers. Our vast natural resources have demanded for their development vast quantities of cheap labor. A continuous immigrant stream has supplied an increasing demand. The result has been the rapid development of a vast pecuniary system, in which the older stocks have generally been pushed up into positions of greater responsibility and higher wages. Our standards of living have been further advanced by the myriads of cheap

goods which immigrant labor has enabled our mills and mines to turn out.

But, like protection, the results of immigration have not been and could not have been, limited to the purely industrial results which were anticipated. Immigration, in connection with such complementary "forces" as protection, the rapid accumulation of capital, the swift adaptation of the machine technique to a new continent, has contributed to the general transformation of American society which has come about in the last fifty years. It has played its part in the overdevelopment of our natural resources, the rapid growth of our mining and manufacturing, the extension of our pecuniary system, the evolution of our urban culture, and the institutions, attitudes, and problems which have been incident to this. Its rôle in the production of our "prosperity" has been by no means a negligible one. Its social effects are very closely bound up with the tariff. By accelerating the rate of our development and by tying up larger and larger proportions of our resources in industries supplying capricious wants, it has intensified the rhythm of the business cycle. By blessing the country with an endless stream of "green" labor, it has seriously weakened the bargaining position of native laborers, has retarded the development of group solidarity, and has slackened the rate of improvement of factory conditions. It has caused our national life to remain "in a state of perpetual transition," and inhibited the formulation of the standards which a stable society must possess. Through the very plasticity of the immigrant it has preserved too much of the older institutional system, despite the sweeping transformation of our social life. To this end it has strengthened the hold of the older individualism; it has increased the inequalities in wealth; it has rendered the strategic position of property stronger; it has added huge increments of illiteracy to the body of citizens; it has delayed our achievement of social unity.

Not content with complicating all our social problems and adding a quota of new ones, it has presented us a perplexing and baffling immigration problem. In the past we have solved this in the formula, "Whosoever will, let him come." Our futile attempts at restriction have involved the contradiction of making use of a qualitative test, that of literacy, to solve a problem which we have conceived of only in quantitative terms. But, if we are to control our growth, we must formulate a more elaborate policy. In that task we must ask ourselves some very pertinent questions. What place is the immigrant to have in the future American society? Is he ultimately to become one of us, or is he to constitute a permanent proletariat in a class society? How many immigrants can we use? What are we to use them for? What policy will result in securing the right number, of the right kinds, and in the right proportions? Have we elaborated machinery for making the immigrants the kinds of people we want them to be? Can such machinery be elaborated? What influences is the newcomer exerting, or destined to exert, upon our ideals, our standards, our institutions, and our programs? And what in the less immediate future is going to be the good of it all?

As we as a nation become older, our problems little by little lose their gigantic and crude character. Our solutions must accordingly become more delicate and exact. With this change in our national life we are beginning to give more attention to the qualitative side of the population problem. As yet we have aimed only at "negative" results. We have tried to prevent the marriage and breeding of the "unfit," such as the insane, the feeble-minded, and those possessed of chronic and hereditary (?) diseases. We have made some attempt to prevent the marriages of those of radically different stocks, such as whites and blacks. But we have as yet formulated no positive program aimed at a definite result. We have, with trifling exceptions, allowed men of any race to come and sojourn with us. To prevent their becoming contributors to a future American race we have depended only upon such social restraints as inhere in racial antipathy and in the difference in social and economic positions between members of different stocks. A permanent control of the quality of population involves both the immigration and the

eugenics problems. We must allow only those whom we desire to come in or to be born. But whom do we desire? This problem is not the simple one of the breeder of race horses, draught animals, or fine porkers. There is no single and simple quality that we are to breed for, such as speed, physical strength, or quantity of flesh. The answer is contingent upon the answer to the larger and more difficult question of the kind of society we want to develop.

A. THE QUESTION OF NUMBERS

222. Utopia and the Serpent[1]

BY THOMAS HUXLEY

Suppose a shipload of English colonists to form a settlement in such a country as Tasmania was in the middle of the last century. On landing they find themselves in the midst of a state of nature, widely differing from that left behind them. They proceed to put an end to this state of things over the area they wish to occupy. They clear away the native vegetation, and introduce English vegetable and animal life, and English methods of cultivation. Considered as a whole the colony is a composite unit introduced into the old state of nature; and, thenceforward, a competitor in the struggle for existence. Under the conditions supposed there is no doubt of the result, if the work of the colonists be carried out intelligently. On the other hand, if they are slothful, stupid, or careless, there is no doubt that the old state of nature will have the best of it.

Let us now imagine that some administrative authority, as far superior to men as men are to their cattle, is set over the colony. The administrator would, so far as possible, put a stop to the influence of external competition by thoroughly extirpating the native rivals, whether man, beasts, or plants. And he would select his human agents with a view to his ideal of a successful colony. Next, in order that no struggle for means of existence between human agents should weaken the efficiency of the corporate whole, he would make arrangements by which each would be provided with those means. In other words, selection by means of a struggle for existence between man and man would be excluded. At the same time, the obstacles to the development of the full capacities of the colonists would be removed by the creation of artificial conditions of existence of a more favorable character. Protection against heat and cold; drainage and irrigation, as preventitives of excessive rain and drought; roads and canals, to overcome obstacles to locomotion; mechanical agencies to supplement the natural strength of men, would all be afforded. With every step in this progress in

[1]Adapted from "Prolegomena" to *Evolution and Ethics,* v–vii (1894).

civilization, the colonists would become more and more independent of nature. To attain his ends the administrator would avail himself of the courage, industry and co-operative intelligence of the settlers; and it is plain that the interests of the community would be best served by increasing the proportion of persons who possess such qualities, in other words, by selection directed toward an ideal. Thus the administrator might look for the establishment of an earthly paradise, a true garden of Eden, in which all things should work together toward the well-being of the gardeners, in which men themselves should have been selected with a view to their efficiency as organs for the performance of the functions of a perfected society.

But this Eden would have its serpent, and a very subtle beast too. Man shares with the rest of the living world the mighty instinct of reproduction and its consequence, the tendency to multiply with great rapidity. The better the measures of the administrator achieved their object, the more completely the destructive agencies of the state of nature were defeated, the less would that multiplication be checked. Thus as soon as the colonists began to multiply, the administrator would have to face the tendency to the reintroduction of natural struggle into his artificial fabric, in consequence of the competition, not merely for the commodities, but for the means of existence. When the colony reached the limit of possible expansion, the surplus population must be disposed of somehow; or the fierce struggle for existence must recommence and destroy the artificially created system.

223. Early Appraisals of Population

A) BY AN EARLY HISTORIAN[2]

And thy seed shall be as the dust of the earth, and thou shalt spread abroad to the west, and to the east, and to the north, and to the south; and in thee and thy seed shall all the nations of the earth be blessed.

B) BY AN EARLY POET[3]

Lo, children are a heritage of Jehovah;
And the fruit of the womb is his reward.
As arrows in the hands of a mighty man
So are the children of youth.
Happy is the man that hath his quiver full of them.

[2]From Gen. 28:14 (750 B. C.).
[3]From Ps. 127:3–5 (200 B. C.).

c) BY ARISTOTLE[4]

There is an inconsistency in equalizing the property and not regulating the number of the citizens. One would have thought that it was even more necessary to limit population than property; and that the limit should be fixed by calculating the chances of mortality in the children, and of sterility in married persons. The neglect of this subject, which in existing states is so common, is a never-failing cause of poverty among the citizens, and poverty is the parent of revolution and crime.

d) BY SIR WILLIAM TEMPLE[5]

The true and natural ground of trade and riches is the number of people in proportion to the compass of the ground they occupy. This makes all things necessary to life dear, and forces men to industry and parsimony. These customs which grow first from necessity become with time to be habitual to the country. And wherever they are so, that place must grow great in traffic and riches, if not disturbed by some accident or revolution, by which the people come either to be scattered or destroyed. When things are once in motion trade begets trade as fire does fire; and people go much where people have already gone.

e) BY SIR JOSIAH CHILD[6]

You cry up the Dutch to be a brave people, rich and full of cities, that they swarm with people as bee-hives with bees; if a plague come they are filled up presently and such like; yet they do all this by inviting all the world to come and live among them. You complain of Spain, because their inquisition is so high, they'll let nobody come and live among them, and that's the main cause of their weakness and poverty. Will not a multitude of people strengthen us as well as the want of it weaken them? Sure it will.

f) BY DANIEL DEFOE[7]

Whence is all this poverty of a country? 'Tis evident 'twas want of trade and nothing else. Trade encourages manufacture,

[4]Adapted from *The Politics,* II, 6 (357 B.C.); tr. by B. Jowett.

[5]Adapted from "An Essay upon the Advancement of Trade in Ireland," in *Works,* III, 2–3 (1673).

[6]Adapted from "England's Great Happiness," in McCulloch's *Select Collection of Early English Tracts on Commerce,* 263 (1677).

[7]Adapted from "Extracts from a Plan of English Commerce, being a Compleat Compendium of the Trade of This Nation," in McCulloch's *Select Collection of Scarce and Valuable Tracts on Commerce,* 112–113 (1730).

prompts invention, increases labor and pays wages. As the number of people increase, the consumption of provisions increases. As the consumption of provisions increases, more lands are cultivated. In a word as the land is employed the people increase of course and the prosperity of a nation rises and falls just as trade is supported or decayed. 'Tis by their multitude, I say, that all wheels of trade are set on foot, the manufacture and produce of the land and the sea are finished, cured and fitted for the markets abroad; 'tis by the largeness of their gettings that they are supported.

G) BY SIR JAMES STEUART[8]

The generative faculty resembles a spring with a loaded weight, which always exerts itself in proportion to the diminution of resistence; when food has remained some time without augmentation or diminution the spring is overpowered; the force of it becomes less than nothing, inhabitants will diminish at least in proportion to the over charge. If on the other hand food be increased the spring will exert itself in proportion as the resistence diminishes: people will begin to be better fed; they will multiply, and in proportion as they increase in numbers, the food will become scarce again.

H) BY ARTHUR YOUNG[9]

In spite of the assertions of all political writers for the last twenty years, who place the prosperity of a nation in the greatest possible population, an excessive population without a great amount of work and without abundant productions is a devouring surplus for a state; for this excessive population does not get the benefits of subsistence, which, without this excess, they would partake of; the amount of work is not sufficient for the number of hands; and the price of work is lowered by the great competition of the laborers, from which follows indigence to those who cannot find work.

I) BY ADAM FERGUSON[10]

The number in which we should wish mankind to exist is limited only by the extent of place for their residence and of provision for their subsistence and accommodation; and it is commonly observed that the numbers of mankind in every situation do multiply

[8]Adapted from *Principles of Political Economy, Being an Essay on the Science of Domestic Policy in Free States,* 20 (1767).

[9]Adapted from *The Farmer's Tour through the East of England,* 429 (1771).

[10]Adapted from *Principles of Moral and Political Science,* II, 409–410 (1792).

up to the means of subsistence. To extend these limits is good; to narrow them is evil; but although the increase in numbers may thus be considered as object of desire, yet it does not follow that we ought to wish the species thus indefinitely multiplied.

B. THE MALTHUSIAN THEORY

224. The Social Crisis at the Time of Malthus[11]

BY FRANCESCO S. NITTI

At the time of Adam Smith's death, in 1790, the French Revolution had just burst forth, and the choice spirits of the whole of Europe followed it with enthusiasm and trust. Very fortunately for himself, Smith did not see the days of terror and the ruin of the French Revolution, nor did he behold the frightful economic crisis which later resulted from the industrial revolution in his own country. In what different surroundings and under what different conditions Malthus conceived and published his work!

The French Revolution was stifled in blood, and upon the political horizon of Europe there already appeared the showers which announced the Napoleonic storms. The tyrant had been killed, the old privileges abolished, but the illusion had also proved false in a great and far-reaching way; for, in spite of reforms, society had remained essentially the same.

The life of England beheld by Malthus in his youth was not less saddening. Various successive seasons of scarcity had impoverished British agriculture, while, influenced by the rapid development of industries, the population increased and the phenomenon of over-population systematically occurred. Imports and custom duties hindered the rapid progress of the means of subsistence and of exchange. The evils of war and famine found a sad counterpart in the occurrence of a terrible industrial crisis, than which not even England has seen a sadder or a vaster. The great number of discoveries had, in fact, originated the formation of the great industrial system; and, crushed by this last, the smaller industries were violently injured and unable to resist. Thus the old industries died away on all sides, bringing down in their ruin thousands of workmen, and causing a strong feeling of misfortune to be felt by the whole of England. This evil state of things was the more deeply felt because the new ideas, spread among the educated classes, augmented the subjective causes of misery.

[11]Adapted from *Population and the Social System,* 13–18 (1897).

The poor laws became a source of evil; far from remedying pauperism, they increased it. Government provisions in favour of the poorer classes were inopportune.

In short, the whole administration of public relief was defective. Multiplying the relief given, and enlarging the practice of allowances was of no avail: it ended by causing a progressive decline in wages. Indeed, at one time, the tithe which the poor-rate levied upon the tax-payers in general, became nothing else than a species of subsidy given to manufacturers. In reality, the taxpayers were not burdened for the benefit of the poor, but of the manufacturing classes, and the tax increased so much that the rate of the wages decreased while that of the reliefs increased. Such were the causes which prepared and produced the pessimistic philosophy and economics of which Malthus was probably then the greatest interpreter.

In the great disproportionate distribution of wealth originated by the large growing industry and the rapid technical revolution, Socialism was already taking its rise.

The chief spokesman of the new theories, William Godwin, a very successful agitator and a genial if not always a profound writer, but always most acute and daring, was placed more than any other in this grave contradiction.

It is in truth very difficult to gather a broad and complete system from Godwin's disordered work; what is chiefly wanting to it is stability of views. While in his celebrated book, *An Inquiry Concerning Political Justice,* studying the forms of property he distinguishes between the contrary systems of private property and of supply and demand, and declares himself favourable to this last system, and hence to that of common property; nevertheless, he would have the great transformation to occur spontaneously, without revolution or the intervention of the legislature. The evils which oppress society belong in no way to the nature of things; on the contrary, it is from human institutions that misery and injustice arise. Social wealth not only exists in sufficient quantity, but, if properly distributed, could afford an easy existence in exchange of moderate labour. Let wealth be properly distributed, and give mankind sufficient time for education and culture, and unaided reason will become the guide of human action, and there will be no further need of coercion and violence. In short, Godwin's ideal was really an anarchical one, but mild and pacific.

Among the greatest admirers of Godwin was the father of Robert Malthus. Not so the son. The study of history had shown him that progress, won by dint of sacrifices, was always very limited

and always gained by main force amid resolute, insurmountable, unceasing obstacles. Therefore, he did not trust the views of his father or the philosophy of Godwin; and it was while studying them that he conceived the plan of collecting the chief ideas, and in 1798 he published his famous essay.

225. The Theory of Population[12]

BY THOMAS ROBERT MALTHUS

In an inquiry concerning the improvement of society, the mode of conducting the subject which naturally presents itself, is, 1, To investigate the causes which have hitherto impeded the progress of mankind towards happiness; and 2, To examine the probability of the total or partial removal of these causes in the future. The principal object of this essay is to examine the effects of one great cause intimately united with the very nature of man. This is the constant tendency of all animated life to increase beyond the nourishment provided for it.

Through the animal and vegetable kingdoms Nature has scattered the seeds of life abroad with the most profuse and liberal hand. If the germs of existence contained in the earth could freely develop themselves, they would fill millions of worlds in the course of a few thousand years. Necessity, that imperious, all-pervading law of nature restrains them and man alike within prescribed bounds.

The effects of nature's check on man are complicated. Impelled to the increase of his species by an equally powerful instinct, reason interrupts his career, and asks him whether he may not bring beings into the world, for whom he cannot provide the means of support. If he hear not this suggestion, the human race will be constantly endeavoring to increase beyond the means of subsistence. But as, by that law of our nature which makes food necessary to the life of man, population can never actually increase beyond the lowest nourishment capable of supporting it, a strong check on population, namely, the difficulty of acquiring food, must be constantly in operation. This difficulty must fall somewhere, and must necessarily be severely felt in some or other of the various forms of misery by a large portion of mankind. This conclusion will sufficiently appear from a review of the different states of society in which man has existed. But the subject will be seen in a clearer

[12]Adapted from *An Essay on the Principle of Population, or a View of the Past and Present Effects on Human Happiness,* 6th ed., I, 1–24 (1826).

light, if we endeavour to ascertain what would be the natural increase in population, if left to exert itself with perfect freedom.

Many extravagant statements have been made of the length of the period within which the population of a country can double. To be perfectly sure we are far within the truth, we will take a slow rate, and say that population, when unchecked, goes on doubling itself every twenty-five years, or increases in a geometrical ratio. The rate according to which the productions of the earth may be supposed to increase, it will not be so easy to determine. However, we may be perfectly certain that the ratio of their increase in a limited territory must be of a totally different nature from the ratio of the increase in population. A thousand millions are just as easy doubled every twenty-five years by the power of population as a thousand. But the food will by no means be obtained with the same facility. Man is confined in room. When acre has been added to acre till all the fertile land is occupied, the yearly increase in food must depend upon the melioration of the land already in possession. This is a fund, which, from the nature of all soils, instead of increasing must be gradually diminishing. But population, could it be supplied with food, would go on with unexhausted vigor; and the increase in one period would furnish a power of increase in the next, and this without any limit. If it be allowed that by the best possible policy the average produce could be doubled in the first twenty-five years, it will be allowing a greater increase than could with reason be expected. In the next twenty-five years it is impossible to suppose that the produce could be quadrupled. It would be contrary to our knowledge of the properties of land.

Let us suppose that the yearly additions which might be made to the former average produce, instead of decreasing as they certainly would do, were to remain the same; and that the product of the land might be increased every twenty-five years, by a quantity equal to what it at present produces. The most enthusiastic speculator can not suppose a greater increase than this. Even then the land could not be made to increase faster than in an arithmetical ratio. Taking the whole earth, the human species would increase as the numbers 1, 2, 4, 8, 16, 32, 64, 128, 256, and subsistence as 1, 2, 3, 4, 5, 6, 7, 8, 9. In two centuries the population would be to the means of subsistence as 256 to 9; in three centuries as 4096 to 13, and in two thousand years the difference would be almost incalculable.

In this supposition no limits whatever are placed to the produce of the earth. It may increase forever and be greater than any

assignable quantity; yet still the power of population, being in every period so much greater, the increase of the human species can only be kept down to the level of the means of subsistence by the constant operation of the strong law of necessity, acting as a check upon the greater power.

But this ultimate check to population, the want of food, is never the immediate check except in cases of famine. The latter consists in all those customs, and all those diseases, which seem to be generated by a scarcity of the means of subsistence; and all those causes which tend permanently to weaken the human frame. The checks may be classed under two general heads—the preventative and the positive.

The preventative check, peculiar to man, arises from his reasoning faculties, which enables him to calculate distant consequences. He sees the distress which frequently presses upon those who have large families; he cannot contemplate his present possessions or earnings, and calculate the amount of each share, when they must be divided, perhaps, among seven or eight, without feeling a doubt whether he may be able to support the offspring which probably will be brought into the world. Other considerations occur. Will he lower his rank in life, and be obliged to give up in great measure his former habits? Does any mode of employment present itself by which he may reasonably hope to maintain a family? Will he not subject himself to greater difficulties and more severe labor than in his present state? Will he be able to give his children adequate educational advantages? Can he face the possibility of exposing his children to poverty or charity, by his inability to provide for them? These considerations prevent a large number of people from pursuing the dictates of nature.

The positive checks to population are extremely various, and include every cause, whether arising from vice or misery, which in any degree contributes to shorten the natural duration of human life. Under this head may be enumerated all unwholesome occupations, severe labour, exposure to the seasons, extreme poverty, bad nursing of children, great towns, excesses of all kinds, the whole train of common diseases, wars, plagues, and famines.

The theory of population is resolvable into three propositions: 1. Population is necessarily limited by the means of subsistence. 2. Population invariably increases where the means of subsistence increase, unless prevented by some very powerful and obvious checks. 3. These checks which keep population on a level with the means of subsistence are all resolvable into moral restraint, vice, and misery.

226. Malthusianism a Support of Capitalism[13]

BY PIERCY RAVENSTONE

We have new doctrines preached to us. Men, it is now discovered grow more readily than plants. Human beings overrun the world with the rapidity of weeds. Hence the hopeless misery. The earth groans under the weight of numbers. The rich it is now discovered give bread to the poor. Labour owes its support to idleness. Those who produce everything would starve but for the assistance of those who produce nothing. The numbers of the poor are to be checked by all possible means: every impediment is to be placed in the way of their marriages, lest they should multiply too fast for the capital of the country. The rich, on the contrary, are to be encouraged, everything is to be done for their benefit. For though they produce nothing themselves, their capital is the cause of everything produced; it gives fertility to our fields and fecundity to our flocks.

These doctrines are new. It was long the established creed of every statesman, that in the extent of its population consisted the strength, the power, and the opulence of every nation; that it was therefore the duty of every sovereign to increase, by all practicable means, the number of the people committed to his charge. On whatever other points statesmen and legislators might differ, on this they were all agreed. From Lycurgus to Montesquieu the doctrine underwent no change. Marriage was everywhere held up as honourable; children were considered as entitling their fathers to peculiar privilege and the mark of scorn was imprinted on the selfish being who remained single. Poverty gave no exception, it rather increased the obligation. His country gratefully received in children the contribution of him who had nothing else to give. The wealth of a nation consisted in the number and strength of its peasantry. Men did not dream that riches could be separated from numbers. By these newer doctrines pestilence and famine are ministers of God, executing his eternal decrees, and rescuing us from the necessity of overwhelming wretchedness. The doctrine has robbed Divinity of all the charities of his nature, leaving to him little else than the functions of an enemy of mankind.

The great and the rich could not be much offended at discovering that whilst their rights were augmented, they were entirely absolved from the performance of those actions which the less

[13]Adapted from *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy*, 5-24 (1821).

enlightened judgment of other times had classed amongst the most important and essential of their duties. To be merciful to our own faults, to believe our idle expenses meritorious, to set up selfishness as the idol of our idolatry, and to drive away charity, are duties not very repugnant to our nature. They demand no sacrifice in their performance. The temple of virtue will be crowned with votaries, if it be made to lead to the shrine of self-interest.

Those severer morals which taught that the poor were equally partakers of the divine nature with the rich; that they were equally fashioned in the image and likeness of God; that their industry being the cause of all that was produced, and the rich being in reality only pensioners on their bounty, the latter were only trustees for the good of society; that their wealth was given not for their own enjoyment, but for its better distribution through the different channels of society, were not likely long to maintain their hold on the minds of the wealthy against those sedative doctrines which flattered the passions, converted faults into good qualities, and made even conscience pander to vices.

It is an old and dreary system which represents our fellow-creatures as so many rivals and enemies, which makes us believe that their happiness is incompatible with our own, which builds our wealth on their poverty, and teaches that their numbers cannot consist with our comforts and enjoyments; which would persuade us to look on the world as a besieged town, where the death of our neighbors is hailed with secret satisfaction since it augments the quantity of provisions likely to fall to our share. To consider misery and vice as mere arrangements of the Divinity to prevent the inconvenience of a too great population of the world, is to adopt predestination in its worst form. In committing crimes we should only be executing the will of God; in alleviating the distresses of others, in feeding the hungry and clothing the naked, we should be running counter to the decrees of Providence.

But before we can adopt these conclusions, it behooves us to examine on what foundation the system is built. We must remember that it is the common interests of all members which holds society together. Misery is not of God's creation; vice is not the minister of His will. I shall show that the increase in numbers in the human species is wholly uninfluenced by human institutions. It is by no means so varied in its operation as Mr. Malthus has supposed; it affords no ground for alarm; it calls for no restrictive measures, since the increase in subsistence is entirely dependent on the increase in numbers. Every man brings into the world the means of producing his own sustenance. Wherever the numbers of

the people increase more rapidly than the means of subsistence, the fault is not with Providence, but in the regulations of society. Capital is no addition to the wealth of a nation; it conduces nothing to the improvement of the industry; it is merely a new distribution of the property of society, beneficial to some, wholly because it is injurious to others.

227. Malthus versus the Malthusians[14]

BY LEONARD T. HOBHOUSE

The appearance of the biological theory of progress, of which we have been hearing much of late, was announced by the terrible douche of cold water thrown by Malthus on the speculative optimism of the eighteenth century. The generation preceding the French Revolution was a time of buoyant and sanguine outlook. There floated before men the idea of an age of reason when men should throw off the incubus of the past and resume a life in accordance with nature in a social order founded on a rational consideration of natural rights. Nature both in the politics and the economics of the time assumes a half personal and wholly benevolent character while human restrictions, human conventions, play the part of the villain in the piece. At this point Malthus intervened by calling attention to a "natural" law of great significance. This was the law that human beings multiplied in a geometrical ratio; that it was only by the checks of famine, pestilence, and war that they were prevented from overspreading the earth, and that, to cut the matter short, whatever the available means of subsistence, mankind would always, in the absence of prudential checks, multiply up to the limit at which those means became inadequate. True, the means of subsistence might be extended. New countries might be opened up. New sources of food supply might be discovered. Every such extension, the Malthusian argued, would only redouble the rate of multiplication. Checks would cease, men and women would marry earlier; very soon population would again be pressing on the means of subsistence. The advance in civilization told in the same direction. Population was increasing, must increase. It could be held in check only by the one great barrier of the subsistence limit against which the fringe of advancing population must forever beat in misery. There could be no solution of the social question; for in the nature of things there must be a line where the surf of the advancing tide breaks upon the shore, and that shore was death

[14]Adapted from *Social Evolution and Political Theory,* 13–16. Copyright by the Columbia University Press (1911).

from insufficiency of nourishment. You observe that in summarizing the argument I speak partly of Malthus, partly of the Malthusians. Malthus himself, particularly in his second edition, laid stress on the prudential checks. He cannot fairly be accused of fostering the pessimistic views often fastened upon him. But for many a long year after he wrote, the efficacy of the prudential checks appeared to be very slight. It was his first edition that was generally absorbed and that profoundly influenced social thought for nearly a century. It was not till the seventies that there came into operation that general fall in the birth-rate, which has justified Malthus against the Malthusians, has put the calculations of the future growth of population on a radically different basis, and has brought about among other things a complete reconstruction of the biological argument against progress. I venture to think we may draw a lesson from the fate of Malthusianism. Mathematical arguments drawn from the assumption that human beings proceed with the statistical regularity of a flock of sheep are exceedingly difficult to refute in detail, and yet they rest on an insecure foundation. Man is not merely an animal. He is a rational being. The Malthusian theory was one cause of the defeat of its own prophecies. It was the belief that population was growing too fast that operated indirectly to check it. Those who fear that population is now growing too slowly, may take some comfort from the reflection. We are not hastily to assume inevitable tendencies in human society, because the moment society is aware of its tendencies a new fact is introduced. Man, unlike other animals, is moved by the knowledge of ends, and can and does correct the tendencies whose results he sees to be disastrous. The alarmist talk of race suicide may serve its purpose if only by admonishing us of the fate of a theory based on what appears to be a most convincing biological calculation.

C. THE COMING OF THE IMMIGRANT

228. The Falling Birth-Rate[15]

BY EDWARD ALSWORTH ROSS

A century ago Malthus startled the world by demonstrating that our race naturally multiplies faster than it can increase its food supply, with the result that population tends ever to press painfully upon the means of subsistence. So long as mankind reproduces

[15]Adapted from *Changing America*, 32–49. Copyright by The Century Company (1912).

freely, numbers can be adjusted to resources only by the grinding of destructive agencies, such as war, famine, poverty and disease. To be sure, this ghastly train of ills may be escaped if only people will prudently postpone marriage. Since, however, late marriage calls for the exercise of more foresight and self-control than can be looked for in the masses, Malthus painted the future of humanity with a somberness that gave political economy its early nickname of "the dismal science."

Malthus is not in the least "refuted" by the fact that, during his century, the inhabitants of Europe leaped in number from one hundred and eighty-seven millions to four hundred millions, with no increase but rather diminution of misery. It is true, unprecedented successes in augmenting the food supply have staved off the overpopulation danger. Within a life time, not only have the arts of food raising made giant strides, but, at the world's rim, great virgin tracts have been brought under the plow, while steam hurries to the larders of the Old World their surplus produce. But such a bounty of the gods is not rashly to be capitalized. While there is no limit to be set to the progress of scientific agriculture, no one can show where our century is to find its Mississippi Valley, Argentina, Canada, or New Zealand, to fill with herds or farms. The vaunted plenty of our time adjourns but does not dispel the haunting vision of a starving race on a crowded planet.

Nevertheless, the clouds that hung low about the future are breaking. The terrible Malthus failed to anticipate certain influences which in some places have already so far checked multiplication as to ameliorate the lot of even the lower and broader social layers. The sagging of the national birth-rate made its first appearance about fifty years ago in France, thereby giving the other peoples a chance to thank God they were not as these decadent French. But the thing has become so general that today no people dares to point the finger of scorn. In 1878, the fall of the birth-rate began in England. During the eighties, it invaded Belgium, Holland, and Switzerland. In 1889 it seized with great virulence upon Australia. Just before the close of the century Finland, Italy, and Hungary fell into line. In Germany and Austria it is only within four or five years that the economists have begun to discuss "our diminishing fecundity." In all Christendom, only Russia, the Balkan states and French Canada show the old-fashioned birth-rates of forty, fifty, or even fifty-five, per thousand. The tendency in the United States is best revealed in the diminishing number of children under five years to each thousand women of child-bearing age. The decline from 1860 to 1890 is 24 per cent.

Owing to the fact that the death rate has been falling even faster than the birth rate, there is, so far, no slackening in the growth of numbers. Indeed, part of the fall in the birth rate merely reflects the increasing proportion of aged.

The forces reducing the death-rate are by no means the same as those cutting down the birth-rate, nor have they the same sphere of operation. Deaths are fewer because of advances in medicine, better medical education, public hospitals, pure water supply, milk inspection, housing reform and sanitation. Births are rarer owing to enlightenment, the ascent of women, and individualistic democracy. The former may be introduced quickly, from above. The latter await the slow action of the school, the press, the ballot, the loosening of custom.

An abrupt fall in the birth-rate of from 10 to 20 per cent among the four hundred million bearers of the Occidental torch is a phenomenon so vast and so pregnant as to excite the liveliest speculation. Some lay it to physiological sterility produced by alcohol, city life and over-civilization. There are, indeed, in some quarters, notably in New England, evidences of a decline in female fertility; but, on the whole, the lower birth-rate reflects the smaller size of families rather than the greater frequency of childless couples.

Others insist that vice, club-life, the comfortable celibacy of cities, and the access of women to the occupations are turning people away from wedlock. It is true that the proportion of single women is increasing with us. Still, few peoples are so much married as Americans, and, for all that, their birth-rate has fallen fast and fallen far. Michigan, which is about as addicted to the married state as any white community in the world, has only two-thirds the fecundity of England and half that of Hungary.

Perhaps the master force of our time is democracy. The barriers of caste are down so that more and more a man's social standing depends upon himself. The lists of life are open to all, and the passion to "succeed" grows with the value of the prizes to be won. Never before did so many common people strain to reach a higher rung in the social ladder. But prudence bids these eager climbers avoid whatever will impede one's ascent or imperil one's footing. Children are incumbrances, so the ambitious dread the handicap of an early marriage and a large family. Even the unselfish, whose aim is to assure their children a social position equal to or superior to their own, will see to it that there are not more children than they can properly equip.

The effect of democracy is reinforced by the break-up of custom. As fixed class distinctions fade out, people cease to be guided by the

traditional standard of comfort. It is no longer enough to live as father and mother lived. Wants and tastes, once confined to the social elect, spread resistlessly downward and infect the masses. Here the decencies, there the comforts, yonder the vanities of life compete with the possible child and bar it from existence.

The great movement that has burst the fetters on woman's mind, and opened to her so many careers, exalts her in the marriage partnership and causes the heavy price of motherhood to be more considered by her husband as well as by herself.

However we account for the fall in the birth-rate, there is no question as to its consequences. The decline registers itself in a rising plane of comfort, a growth of small savings, and a wider diffusion of ownership. Owing to the better care enjoyed by the aged when they do not have to compete for attention with an over-large brood of wailing infants, there is a striking increase in longevity. A greater proportion of lives are rounded out to the Psalmist's term. There is also a wonderful saving of life among infants, for often prolificacy does nothing but fill the churchyards with wee mounds. When we consider that in 1790 there were in this country just twice as many children under 16 to adults over 20 as there are today we understand why the law limits child labor and insists on keeping children in school.

But the supreme service of forethoughted parenthood is that it bids fair to deliver us from the overpopulation horror, which was becoming more imminent with every stride in medicine or public hygiene. Most of the Western peoples have now an excess of births over deaths of one per cent a year. If even a third of this increase should find a footing over sea, then home expansion would still be such that, at a future date no more remote from us than the founding of Jamestown, Europe would groan under a population of three billions, while the United States of that day, with twice as many people as Europe now has, would be to China what China is to the present United States. Besides its attendant misery and degradation, population pressure sharpens every form of struggle among men,—competition, class strife, and war—and the dream of a moral redemption of our race would vanish into thin air if the enlightened peoples had failed to meet the crisis created by the reduction of mortality.

Once it seemed as if man's propensity to multiply foredoomed him to live ever in the presence of vast immediate woe. However smiling the gardens of Daphne they had always to slope down into a huge malodorous quagmire of wretchedness. The wheel of Ixion, the cup of Tantalus, symbolized humanity striving ever by labor

and ingenuity to relieve itself of a painful burden, only to have that burden inexorably rolled back upon it by its own fatal fecundity.

Now that cheap travel stirs the social deeps and far-beckoning opportunity fills the steerages, immigration becomes ever more serious to the people that hopes to rid itself at least of slums, "masses" and "submerged." What is the good of practising prudence in the family if hungry strangers may crowd in and occupy at the banquet table of life the places reserved for its children? Shall it, in order to relieve the teeming lands of their unemployed, abide in the pit of wolfish competition and renounce the fair prospect of a growth in suavity, comfort, and refinement? If not, then the low-pressure society must not only slam its doors upon the indraught, but must double-lock them with forts and iron-clads, lest they be burst open by assault from some quarter where "cannon food" is cheap.

The rush of developments makes it certain that the vision of a globe "lapt in universal law" is premature. If the seers of the mid-century who looked for the speedy triumph of free trade had read their Malthus aright, they might have anticipated the tariff barriers that have risen on all hands within the last thirty years. So, today, one needs no prophet's mantle to foresee that presently the world will be cut up with immigration barriers which will never be leveled until the intelligent accommodation of numbers to resources has greatly equalized population pressure all over the globe. The French resent the million and a third aliens that have been squeezed into hollow and prosperous France by pressure in the neighbor lands. The English restrict immigration from the Continent. The Germans feel the thrust from the overstocked Slavic areas. The United States, Canada, Australia and South Africa are barring out the Asiatic. Dams against the color races, with spillways of course for students, merchants, and travelers, will presently enclose the white man's world. Within this area minor dams will protect the high wages of the less prolific peoples against the surplus labor of the more prolific.

Assuredly, every small-family nation will try to raise such a dam and every big-family nation will try to break it down. The outlook for peace and disarmament is, therefore, far from bright. One needs but compare the population-pressures in France, Germany, Russia and Japan to realize that, even today, the real enemy of the dove of peace is not the eagle of pride or the vulture of greed but the stork!

229. The Immigrant Invasion[16]

BY FRANK JULIAN WARNE

At the time of the appearance of the comet in 1910 there was in progress the most remarkable and in many ways the most wonderful invasion of one country by peoples of foreign countries that the world had ever seen. In the very month of May, when the comet's appearance in the heavens was being heralded in the newspapers, as many as one hundred and fifty thousand representatives of different races and countries of the world were entering the immigrant ports of the United States. They were equal to one hundred and fifty full regiments of one thousand each; they were double the entire fighting strength of the United States Army. More than one million people from all the countries on the globe were that year passing in a seemingly never-ending stream into the United States.

They came from the British and the Spanish Americas, from Europe and from Africa, from Asia and from India, from the islands of the Pacific and the islands of the Atlantic. From the United Kingdom and the Russian Empire, from the Scandinavian countries and the Netherlands, from the German Empire and the Dual Kingdom of Austria-Hungary, from Turkey in Europe and Turkey in Asia, from Italy and China and Japan, they came. There was not a single geographical or politically organized area of importance from which they did not come. England, Ireland, Scotland, Wales, Norway, Sweden, Denmark, Holland, Belgium, Switzerland, France, Spain, Portugal, Roumania, Greece, Armenia, Persia, Syria, Sicily and Sardinia, the Cape Verde and Azores Islands, the Canary and Balearic Islands, British Honduras, Tasmania, and New Zealand, the Philippines, Hawaii, the East and the West Indies, Cuba, Canada, Mexico, and South and Central American countries—each and all and more were represented.

The sources of this stream of immigration are four great stocks of the human race—the Aryan, the Semitic, the Sinitic, and the Sibiric. From the homes of these, as they have scattered themselves among the Teutonic, Celtic, Slavonic, Lettic, Italic, Hellenic, Illyric, Indo-Iranic, Chaldean, Chinese, Japanese, Finnic, and Tartaric groups, this stream is pouring. The peoples composing it are Scandinavians, Dutch, Flemish, Germans, English; Irish, Welsh, Scotch; Bohemians, Dalmatians, Moravians, Croatians, Poles, Slovenians, Bulgarians, Russians, Servians, Ruthenians, Montenegrins, Bosnians, Herzegovinians, Slovaks; Letts and Lithuanians; French.

[16]Adapted from *The Immigrant Invasion,* 1–21. Copyright by Dodd, Mead & Co. (1913).

Italians, Portuguese, Roumanians, and Spaniards; Greeks; Albanians; Armenians, Persians, and Gypsies; Hebrews and Syrians; Chinese; Japanese and Koreans; Finns and Magyars; and Turks. Besides, we have coming to us Berbers and Arabs from northern Africa, Bretons from western France, Esthonians from western Russia, Esquimaux from western Alaska, Spanish Americans from South America. And not even all these exhaust the multitudinous sources contributing to our foreign-born population.

Unlike the invasions of other centuries and of other countries, the present-day immigration to the United States is not by organized armies coming to conquer by the sword. It is made up of detached individuals, or at most, of family or racial groups, afoot, the sword not only sheathed but also entirely discarded by those who have no idea of battling with arms for that which they come to seek. They do not come as armed horsemen, with their herds of cattle and skin-canopied wagons. Nor do they present themselves at our doors in "great red ships," with the ensign of the rover hanging from the topmast, and clad in chain-mail shirts and with helmets.

More than twenty-eight million have entered the United States from all parts of the world during the ninety years since 1820! In the course of the nineteenth century, and the first decade of the twentieth century, there came more than five million from Germany, four million from Ireland, more than three million from each of Austria-Hungary, and Italy, three million from England, Scotland, and Wales; nearly two and one-half million from Russia; nearly two million from Norway, Denmark, and Sweden; and about five hundred thousand from France.

More than twenty-five million immigrants came within the sixty years since 1850; and more than nineteen million came within the last thirty years. The ten years ending with 1910 gave us a total immigration exceeding 8,795,000, nearly five million of those arriving within the past five years. In the single year 1910 the number of arrivals exceeded one million by 41,000; in the twelve months three years before they had reached 1,285,000, this being the largest single yearly inflow of foreign born in the history of the country.

Taking the average for the past ten years, we find that there came annually more than eight hundred and seventy-nine thousand immigrants; for every month more than seventy-three thousand; for every day, Sundays and holidays included, two thousand four hundred and forty, and for every time the clock struck the hour, day and night, one hundred persons born in some foreign country landed on the shores of the United States.

Truly a wonderful invasion! A stupendous army! An army that has been marching continually all these years—an army whose ranks, although changing racially, have not been depleted but have steadily and at times alarmingly increased in numbers as the decades have gone by. Here is a phenomenon before which we must stand in awe and amazement when contemplating its consequences to the human race!

Think you that any such numbers invaded the Roman world when the Huns poured in from the East? Was Attila's army one-half, even one-tenth, as large when it overran Gaul and Italy? Did the Saxons in the sixth century invade England in any such numbers? Or, did William the Conqueror lead any such army in the Norman invasion of England in the eleventh century? And yet, upon the peoples of those countries the mark of the invader is seen to this day. Think you that America alone will escape the consequences?

Let us look at the volume of this invasion from another angle. There were in the United States in 1910 more than 13,500,000 persons who had been born in some foreign country. That is, one out of every seven of our population came here, not through having been born here, but through immigration. The largest contribution was from Germany, the next largest from Russia; then came Ireland and Italy in a close race for third place, the number of the former exceeding those from Italy by less than ten thousand. Austria, including Bohemia and a part of what formerly was Poland, held fifth place; Canada was in sixth and England in seventh place, Sweden in eighth, Hungary in ninth, and Norway in tenth.

These ten countries contributed more than 11,600,000, of the 13,500,000 or all but 1,900,000 of our foreign born. Their proportion of the total was about 86 per cent. The other countries or geographical and political divisions represented in the foreign-born population of the United States in 1910 were Scotland, Wales, Denmark, Holland, Belgium, Luxemburg, Switzerland, Portugal, Spain, France, Finland, Roumania, Bulgaria, Servia, Montenegro, Turkey, Greece, Newfoundland, Cuba, West Indies, Mexico, Central America, South America, Japan, China, India, Asia, Africa, Australia, Atlantic Islands, Pacific Islands, and other countries not specified.

Religiously they are believers in Roman and Greek Catholicism, Protestantism in its manifold forms and variations, Mohammedanism, Armenianism, Buddhism, Confucianism, Judaism, Shamanism, Islamism, Shintoism, and hundreds of diversified sects, some with such strange names as Chiah, Sunni, Parsee, Nestorian, Maronite, Druse, Osmanlis, Laotse, and so on.

Linguistically they are German, Dutch, Scandinavian, including Danish, Norwegian, and Swedish, Flemish, English, Gaelic, Cymric, Slavic, including Russian, Serbo-Croatian, Polish, and Bohemian; French, Italian, Spanish, Roumanian, Portuguese, Rheto-Roman, Greek, Albanian, Lithuanian, Lettic, Armenian, Persian, Yiddish, Semitic, Turkish, Finnish, Magyar, Chinese, Japanese, Korean, Mexican, Spanish American, and other groups distinguished by the language they speak. Among these are such strange and unfamiliar dialects as Friesian, Thuringian, Franconian, Swabian, Alsatian, Wallon, Gascon, Languedocian, Rhodanian, Catalan, Galego, Friulan, Gegish, Toskish, Pamir, Caspian, Syriac, Aramaic, Shkipetar, and so on.

Some conception of the significance of the numerical strength of the foreign born in the United States is gained by means of a few simple comparisons. They number over three and one-half millions more than all the negro population of the entire country. They equal more than twice the total population, and nearly three times that of the native, of the six New England States; they would populate the seven states of Minnesota, Iowa, Missouri, the two Dakotas, Nebraska, and Kansas, with their present density, and still have an extra 1,880,000; they supply a population 1,300,000 in excess of the total found today in the South Atlantic division, including, besides the District of Columbia, also Delaware, Maryland, the two Virginias, the two Carolinas, Georgia, and Florida.

Considering the native population only, which includes also the children born here of foreign-born parents, our total foreign born equals all the natives in the twenty-two states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Delaware, Florida, the two Dakotas, Kansas, Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, California, Oregon, and Washington.

230. Immigration in a Single Year[17]

BY F. A. OGG

It is not easy to conceive what our immigration has come to be. The figures are too stupendous to be grasped by the mind. Let one who has sat in the magnificent Stadium at Cambridge, as one of the 40,000 spectators at a Harvard-Yale football game, reflect that if the immigrants entering our ports during the fiscal year 1906 were brought together, they would make a throng twenty-five and a half times as large as that which crowds every available foot of space

[17]From an article in *The World's Work,* XIV, 8879–8886. Copyright (1907).

around the great oval. Let him consider that the number admitted in this twelvemonth from Norway and Sweden alone would more than fill the Stadium; that the number from Germany would do the same; that the influx from Great Britain would fill it two and one-half times. That from Russia would fill it more than five times; that from Austria-Hungary would fill it more than six times; and the contributions from Italy would do it seven times with people to spare. Let him further call to mind that, on the average, the Stadium could be packed with the aliens who are landed at Ellis Island every seventeen days throughout the year.

Then let him consider that the total number of immigrants admitted in 1906 would nearly serve to populate either the city of Philadelphia, or the cities of Boston and Baltimore combined; that, in fact it would people all Maryland, or all Nebraska, or the whole region occupied by Arizona, New Mexico, Utah, Idaho, Wyoming, and Montana. These six states and territories have an aggregate area of 649,320 square miles, which is nearly 18 per cent of the total area of the United States.

231. American Appraisals of Immigration

a) The Problem of Distribution[18]

We have room enough; let them come. But the immigrants should pass into the interior. In the present state of the times we seem too thick on the maritime frontier already. Within there is ample and profitable employment for all, in almost every branch of business, and strangers should be encouraged to seek it there.

b) The Old Immigration and the New[19]

BY S. F. B. MORSE

Then we were few, feeble, and scattered. Now, we are numerous, strong and concentrated. Then our accessions of immigration were real accessions of strength from the ranks of the learned and the good, from enlightened mechanic and artisan and intelligent husbandman. Now, immigration is the accession of weakness, from the ignorant and vicious, or the priest-ridden slaves of Ireland and Germany, or the outcast tenants of the poorhouses and prisons of Europe.

[18]Adapted from *Niles' Register,* VII, 359 (1817).

[19]Adapted from *Imminent Dangers to the Institutions of the United States through Foreign Immigration,* etc., by "An American" (1835).

c) *Not Wops, but Irishmen*[20]

They had an utter disregard for felling forests and turning up the prairies for themselves. They preferred to stay where another race would furnish them with food, clothing, and labor, and hence were mostly found loitering on the lines of the public works in villages and in the worst portions of the large cities, where they competed with the negroes, between whom and themselves there was an inveterate dislike, for the most degrading employment.

d) *Not Like the Old Immigrants*[21]

BY M. D. LICHLITER

The immigration of the present is not the immigration of forty years ago. We protest against the admission of those who come to this country whose habits and manner of life tear down the standard of American life, of living, and of wages, and whose traits of character, low order of intelligence, and inferior standard of life renders it impossible for them, even if they had the desire, to maintain the highest ideals of American morality and citizenship.

e) *Freedom of Opportunity*[22]

BY HENRY A. RODENBURG

It has long been our proud boast that ours is the land of liberty and opportunity. Here on the hospitable shores of the "home of the free" the persecuted of the earth have always found a refuge and an asylum. We recognize neither class nor caste, nationality nor religion. Every honest immigrant, no matter from what country he hails, whether from the north of Europe, the south of Europe, the east of Europe, or the west of Europe, if able to meet the requirements of our liberal immigration laws, is invited to partake of our liberties and to join with us in working out the manifest destiny of the American Republic. It is this spirit that lies at the basis of our national greatness. I would not discriminate against the Italian, the Hungarian, or the Pole. I have not forgotten that Columbus was the son of an Italian laborer. I have not forgotten that among

[20]Adapted from the *Report of the Association of the Condition of the Poor.* Reprinted in *Report of the Immigration Commission,* XV, 462 (1860).

[21]Adapted from testimony before the Immigration Commission, in *Reports,* XLI, 16 (1910).

[22]Adapted from a speech delivered in the House of Representatives, July 26, 1912.

the great sculptors and artists who have given Italy her proud place in the world of arts are the sons of men who earned their bread in the sweat of their brows. Ah, genius knows no nationality, and is not the result of birth or location.

D. IMMIGRATION AND INDUSTRIAL DEVELOPMENT

232. Our Industrial Debt to Immigrants[23]

BY PETER ROBERTS

The new immigration in one respect differs very markedly from the old; the percentage of farmers and farm laborers in this new stream is sixfold what it was in the old. In the last decade, the countries of southeastern Europe have sent us two and a half million men, who, in the old country, were tillers of the soil; but it is safe to say that the number following that occupation in the new world is insignificant. They are employed in industrial plants, in which their labor brings quick returns, and if dissatisfied with wages and conditions they can, in a day, pull up stakes and go elsewhere. The new immigration consequently contains more unskilled workers than the old.

America, two generations ago, was an agricultural nation; today it stands in the van of the industrial nations of the earth. This marvelous development, the astonishment of the civilized world, could never have taken place, if Europe and Asia had not supplied the labor force. From 1880 to 1905 the total capital in manufacturing plants increased nearly fivefold, the value of the products increased more than two and a half times, and the labor force about doubled. America could never have finished its transcontinental railroads, developed its coal and ore deposits, operated its furnaces and factories, had it not drawn upon Europe for its labor force; for it was impossible to secure "white men" to do this work.

American industry had a place for the stolid, strong, submissive and patient Slav and Finn; it needed the mercurial Italian and Roumanian; there was much coarse, rough, and heavy work to do in mining and construction camps; in tunnel and railroad building; around smelters and furnaces, etc., and nowhere in the world could employers get laborers so well adapted to their need, as in the countries of southeastern Europe.

Louis N. Hammerling, President of the American Association of Foreign Newspapers, appearing before the Federal Commission

[23]Adapted from *The New Immigration*, 49–62. Copyright by The Macmillan Company (1912).

on Immigration, said: (1) Sixty-five per cent of the farmers owning farms and working as farm laborers are people who came from Europe during the last thirty years. (2) Of the 890,000 miners, mining the coal to operate the great industries, 630,000 are our people. (3) Of the 580,000 steel and iron workers employed in the different plants throughout the United States, 69 per cent, according to the latest statistics of the steel and iron industries, are our people. (4) Ninety per cent of the labor employed for the last thirty years in building the railways has been furnished by our immigrant people, who are now keeping the same in repair.

The census of 1900 showed that 75 per cent of the tailors of the country were foreign-born. The investigation of the Immigration Commission showed 72.2 per cent of the workers in the clothing trades foreign-born, and another 22.4 per cent was made up of the children of foreign-born parents; thus 94.6 per cent of the men and women who manufacture ready-made garments are of foreign parentage.

Wherever unskilled work is needed, the foreigner is the one who does it. He is the toiler, the drudge, the "choreman." In the slaughtering and meat-packing industry, the foreign-born comprise about 60 per cent of the labor force, but if you want to locate the sons of the new immigration in a plant of this character, you must descend to the pits where the hides are cured, generally located in dark and damp basements. Go to the fertilizing plant where the refuse of the slaughter house is assembled, and amid the malodorous smells which combine into one rank stench tabooed by all English-speaking men, you find the foreigner. Go to the soap department, where the fats are reduced and the alkalis are mixed—a place you smell from afar and wish to escape from as soon as possible, and there the foreigner is found. These disagreeable occupations "white people" have forsaken, and the sons of the new immigration do the work uncomplainingly for $1.50 a day.

Wherever digging, excavating, constructing, machine molding, and mining go on, there we find the foreign-born. The patient, willing, and constant labor of the Italians made possible the subways of the great metropolis of the nation; the Bronx Sewer was dug by Italians, Austrians, and Russians. These are the workers who enlarge the Barge Canal and build the Aqueduct to carry an adequate supply of water to the millions of New York City. In lumber camps, in mine patches, in railroad construction work, the foreigner is found. He displaces colored labor in construction camps in the South; and, in the West, he does the unskilled labor

unless a legal barrier has been erected to keep him out. The labor force in the woods of Michigan and Minnesota, of Maine and Vermont, is preponderatingly made up of foreigners.

The aliens are the backbone of the mining industry. Calumet, in the northern peninsula of Michigan, is a foreign city of 45,000 souls. There are sixteen different nationalities represented on the public school teaching force, and the pupils in the high school represent twenty different races. It is difficult to find an American in the place. If you want to find the native-born, you must go to Houghton, the capital of the county, where the doctors and lawyers, engineers and professors, retired capitalists and the leisure class live. And it is the same in the mining camps all through this upper peninsula of Michigan. The men who dig the ore, load it and clean it, who burn the powder and remove the rock, who crawl through dog holes and climb numberless ladders, are foreigners. The only crowd met with in the territory not of foreign parentage are the young college graduates, incipient civil engineers, who put into practice the theories they were taught in college. The same is true, generally speaking, of the coal mining industry.

The United States owes much to the man of the new immigration. No true American will withhold the meed of praise due this man. The consensus of opinion of superintendents and foremen who have used these men is that they have played their part with a devotion, amiability, and steadiness not excelled by men of the old immigration.

233. The Manna of Cheap Labor[24]

BY EDWARD ALSWORTH ROSS

It is not as cargo that the immigrant yields his biggest dividends. But for him we could not have laid low the many forests, dug up so much mineral, set going so many factories, or built up such an export trade as we have. In most of our basic industries the new immigrants constitute at least half the labor force. Although millions have come in there is no sign of supersaturation, no progressive growth of lack of employment. Somehow new mines have been opened and new mills started fast enough to swallow them up. Virtually all of them are at work and, what is more, at work in an efficient system, under intelligent direction. Janko produces more than he did at home, consumes more, and, above all, makes more profit for his employer than the American he displaces. Thanks to him

[24] Adapted from "The Old World in the New," in *The Century Magazine*, LXXXVII, 29. Copyright (1913).

we have bigger outputs, tonnages, trade balances, fortunes, tips, and alimonies; also bigger slums, red-light districts, breweries, hospitals, and death rates.

To the employer of unskilled labor this flow of aliens, many of them used to dirt floors, a vegetable diet, and child labor, and ignorant of underclothing, newspapers, and trade unions, is like a rain of manna. For, as regards foreign competition, his own position is a Gibraltar. Our tariff has been designed to protect him. Thus as long as he stays in his home market, the American mill owner is shielded from foreign competition, while the common labor he requires is cheapened for him by the endless inflow of the neediest, meekest laborers to be found within the white race. If in time they become ambitious and demanding, there are plenty of "greenies" he can use to teach them a lesson. The "Hunkies" pay their "bit" to the foremen for the job, are driven through the twelve-hour day, and in time are scrapped with as little concern as one throws away a thread-worn bolt. A plate mill which had experienced no technical improvement in ten years doubled its production per man by driving the workers. No wonder then that in the forty years the American capitalist has had Aladdin's lamp to rub, his profits from mill and steel works, from packing-house and glass factory, have created a sensational "prosperity" of which a constantly diminishing part leaks down to the wage-earners. Nevertheless, the system which allows the manufacturer to buy at a semi-European wage much of the labor that he converts into goods to sell at an American price has been maintained as "the protection of American labor!"

E. IMMIGRATION AND LABOR CONDITIONS

234. Living Conditions among Home Laborers[25]

BY CHARLES DICKENS

These girls were all well dressed; and that phrase necessarily includes extreme cleanliness. They had serviceable bonnets, good warm cloaks and shawls, and were not above clogs and pattern. Moreover, there were places in the mill where they could deposit these things without injury; and there were conveniences for washing. They were healthy in appearance, and had the manners and deportment of young women; not of degraded brutes of burden.

The rooms in which they worked were as well ordered as themselves. In the windows of some there were green plants which

[25]Adapted from *American Notes,* 56–57 (1841).

were trained to shade the glass; in all, there was very much fresh air, cleanliness, and comfort as the nature of the occupation would possibly admit of. Out of so large a number of females, it may reasonably be supposed that some were delicate and fragile in appearance; no doubt there were. But I solemnly declare that, from all the crowd I saw in the different factories that day, I cannot recall one young face that gave me a painful impression; not one young girl, assuming it to be a matter of necessity that she should gain her daily bread by the labor of her hands, I would have removed from those works if I had had the power.

They reside in various boarding-houses near at hand. The owners of the mills are particularly careful to allow no persons to enter upon the possession of these houses whose characters have not undergone the most searching and thorough inquiry. Any complaint that is made against them is fully investigated, and if good ground for complaint be shown, their occupation is handed over to some more deserving person. There are a few children employed in these factories, but not many. The laws of the state forbid their working more than nine months in the year, and require that they be educated during the other three. For this purpose there are schools in Lowell, and there are churches and chapels of various persuasions, in which the young women may observe that form of worship in which they have been educated.

I am now going to state three facts which will startle a large class of readers on this side of the Atlantic very much. Firstly, there is a joint stock piano in a great many of the boarding-houses. Secondly, nearly all of these young ladies subscribe to circulating libraries. Thirdly, they have got up among themselves a periodical.

235. The Standard of Living of the New Immigrants[26]

BY I. A. HOURWICH

The objection to the unskilled immigrant is based upon the belief that because of his lower standard of living he is satisfied with lower wages than the American or the older immigrant. It is therefore taken for granted that the effect of the great tide of immigration in recent years has been to reduce the rate of wages or to prevent it from rising. The fallacy of this reasoning is due to an attempt to compare the standard of living of the unskilled laborer with that of the skilled mechanic. To prove that the newer

[26]Adapted from *Immigration and Labor,* 19–22. Copyright by G. P. Putnam's Sons (1912).

immigrants have introduced a lower standard of living, the latter ought to be compared with the standard of living of unskilled laborers in the past.

Housing conditions have been most dwelt upon, because they strike the eye of the outsider. Historical studies of housing conditions show, however, that congestion was recognized as a serious evil in New York City as far back as the first half of the nineteenth century. The evil was not confined to the foreign-born population. American-born working-women lived on filthy streets in poorly ventilated houses, crowding in one or two rooms, which were used both as dwelling and workshop. No better were the living conditions of the daughters of American farmers in the mill towns of New England. They lived in company houses, half a dozen in one attic room, without tables or chairs, or even washstands. The typical tenement house in the Jewish and Italian section of New York today is a decided improvement upon the dwellings of the other immigrant races in the same sections a generation or two ago. On the other hand, in the South, where many of the coal mines are operated without immigrant labor and native white Americans are employed, their homes are primitive and unsanitary. The cause of bad housing conditions is not racial, but economic. Congestion in the cities is produced by industrial factors, over which the immigrants have no control. The fundamental cause is the necessity for the wage-worker to live within an accessible distance from his place of work. Moreover, the recent immigrants are mostly concentrated in great cities, where rent is high, while the native American workmen live mostly in small towns with low rents.

Nor are the food standards of the recent immigrant inferior to those of native Americans with the same income. Meat is consumed by the Slav in larger quantities than by native Americans. Rent and food claim by far the greater part of the workman's wages. It is thus apparent that whatever may have been the immigrant's standard of living in his home country, his expenditure in the United States is determined by the prices ruling in the United States. Contrary to common assertion, the living expenses of the native American workman in small cities and rural districts are lower than those of the recent immigrants in the great industrial centres. It is therefore not the recent immigrant that is able to underbid the native American workman, but it is, on the contrary, the latter that is in a position to accept a cheaper wage.

Of course the expenses of a single man are necessarily lower than those of a man with a family, and a large proportion of recent

immigrants either are single, or have left their families abroad. But, while an unmarried American workman may either save or spend the difference, the recent immigrant is obliged to save a part of his earnings. So when a recent immigrant is seen to deny himself every comfort in order to reduce his personal expenses to a minimum, it is a mistake to assume that he will accept a wage just sufficient to provide for his own subsistence. The Italian section-hand who lives on vegetables does not save money for the railroad company. The economic interests of the American wage-earner are therefore not affected by the tendency of the recent immigrant to live as cheaply as possible and to save as much as possible. Even if he merely sends his money home, his wants are as urgent as those of the American laborer who spends his all, and he must demand a wage that will enable him to satisfy them.

Even if the standard of living of the native wage-earners be higher, it is often maintained with the earnings of children, whereas the Southern and Eastern European immigrants are mostly young people whose children have not yet reached working age.

236. Immigration and Wages[27]

BY I. A. HOURWICH

The primary cause which has determined the movement of wages in the United States during the past thirty years has been the introduction of labor-saving machinery. The effect of the substitution of mechanical devices for human skill is the displacement of the skilled mechanic by the unskilled laborer. This tendency has been counteracted in the United States by the expansion of industry; while the ratio of skilled mechanics to the total operating force was decreasing, the increasing scale of operations prevented an actual reduction in numbers. Of course this adjustment did not proceed without friction. While, in the long run, there has been no displacement of skilled mechanics by unskilled laborers in the industrial field as a whole, yet at certain times and places individual skilled mechanics were doubtless dispensed with and had to seek new employment. The unskilled laborers who replaced them were naturally engaged at lower wages. The fact that most of these unskilled laborers were immigrants disguised the substance of the change—the substitution of unskilled for skilled labor—and made it appear as the displacement of highly paid native by cheap immigrant labor.

[27]Adapted from *Immigration and Labor,* 23–26. Copyright by G. P. Putnam's Sons (1912).

To prove that immigration has virtually lowered the rates of wages would require a comparative study of wages paid for the same class of labor in various occupations before and after the great influx of immigrants. This, however, has never been attempted by the advocates of restriction. In fact, the chaotic state of our wage statistics precludes any but a fragmentary comparison for different periods. In a general way, however, all available data for the period of "the old immigration" agree that the wages of unskilled laborers, and even of some of the skilled mechanics did not fully provide for the support of the wage-earner and his family in accordance with their usual standards of living. The shortage had to be made up by the labor of the wife and the children.

If the tendency of the new immigration were to lower the rates of wages or to retard the advance of wages, it should be expected that wages would be lower in great cities where the recent immigrants are concentrated, than in rural districts where the population is mostly of native birth. All wage statistics concur, however, in the opposite conclusion. Since the United States has become a manufacturing country average earnings per worker have been higher in the cities than in the country. The same difference exists within the same trades between the large and the small cities. Country competition of native Americans often acts as a depressing factor upon the wages of recent immigrants. This fact has been demonstrated in the clothing industry, in the cotton mills, and in the coal mines.

Furthermore, if immigration tends to depress wages, this tendency must manifest itself in lower average earnings in states with a large immigrant population than in states with a predominant native population. No such tendency, however, is discernible from wage statistics. As a rule, annual earnings are higher in States with higher percentage of foreign-born workers.

The conditions in some of the leading industries employing large numbers of recent immigrants point to the same conclusions. In the Pittsburgh steel mills the rates of wages of various grades of employees have varied directly with the proportion of recent immigrants. The wages of the aristocrats of labor, none of whom are Southern or Eastern Europeans, have been reduced in some cases as much as 40 per cent; the money wages of the skilled and semi-skilled workers, two-thirds of whom are natives or old immigrants, have not advanced notwithstanding the increased cost of living, while the wages of the unskilled laborers, the bulk of whom are immigrants from Southern and Eastern Europe, have been going up.

In the cotton mills of New England the last quarter of the nineteenth century, when the operatives were practically all of the English-speaking races, was a period of intermittent advances and reductions in wages; on the whole, wages remained stationary. The first years of the present century, up to the crisis of 1908, were marked by the advent of the Southern and Eastern Europeans into the cotton mills, and by an uninterrupted upward movement of wages. The competition of the cheap American labor of the Southern cotton mills, however, tends to keep down the wages of the Southern and Eastern European, Armenian, and Syrian immigrants employed in the New England mills.

As a general rule, the employment of large numbers of recent immigrants has gone together with substantial advances in wages. This correlation between the movements of wages and immigration is not the manifestation of some mysterious racial trait, but the plain working of the law of supply and demand. The employment of a high percentage of immigrants in any section, industry, or occupation, is an indication of an active demand for labor in excess of the native supply. Absence of immigrants is a sign of a dull labor market.

237. The Elevation of the Native Laborer[28]

BY WILLIAM S. ROSSITER

It must not be overlooked that society in the United States has been so constructed as to depend upon the continued arrival of large numbers of foreigners. In consequence, labor conditions prevailing in this nation differ radically from those which prevail in most of the countries of Europe, where all economic requirements are met by natives. In England, in France, or in Germany, for example, the man who sweeps the streets, the laborer upon public works or in mines, and the woman who cooks or performs other domestic duties, are as truly native as the ruler of the nation or the statesmen who guide its destinies. In the United States, the man who sweeps the streets, who labors upon public works, in mines or on railroads, and the woman engaged in domestic service, if white, are almost all of foreign birth. The native stock has learned to regard such callings as menial and hence as lowering to self-respect. Having accepted the education and opportunity which the Republic offers them, native Americans appear to consider that they

[28]Adapted from "A Common-Sense View of the Immigration Problem," in the *North American Review,* CLXXXVIII, 368-371. Copyright (1908).

are untrue to themselves if they do not avoid humble occupations and seek those regarded as an advance in the social scale. There is, therefore, a constant movement away from the lower callings toward the higher; and occupants for the places thus vacated are recruited from foreigners. They in their turn become imbued with the American idea, acquire confidence and develop ambition, and their children abandon to newer arrivals the callings which supported their parents. Evidence of this continued movement upward is seen in the unwillingness, not only of the native stock but of the children of the foreign element, to continue in the servant or so-called menial classes, and in the determination on the part of young women to become shop girls, telephone-operators, typewriters and shop and factory operatives, oftentimes at the penalty of severe privation, rather than to go out to service.

This tendency creates the problem of a constant shortage of workers in the humbler callings. These callings in themselves are as necessary in a republic as in an empire. Therefore workers in such occupations must in the future, as in the past, continue to be recruited from abroad, or else a large number of native Americans, and children of foreign parents, must be contented to labor uncomplainingly in the lower walks of life. It is possible that the former condition may continue indefinitely, but it unquestionably tends toward instability, for a nation which permanently meets by importation its demand for workers is, in a sense, artificially constructed.

When the young United States started upon a career of independence, the inhabitants concentrated their efforts upon the development of national resources. They prayed for wealth, and Providence gave them the immigrant as the means of securing it. After the lapse of a century, our success surpasses the wildest dreams of our ancestors; the United States has grown marvelously in numbers, and has obtained a prosperity unprecedented in the history of the world.

It is unlikely that our portals, thus far ever open to the aliens of all Europe, will be closed to them until it has been conclusively shown that the existence of the nation is imperiled by their coming, or until large numbers of worthy and industrious American citizens are obviously deprived of their means of livelihood by the arriving throngs of foreigners. At the present time there is nothing which points to the realization of these conditions; and, until there is, discussion concerning the restriction is in reality idle. Therefore let us be practical, nursing no delusions, and face conditions as

they are. We have always needed the immigrant to aid us in amassing wealth, and we shall need him in the future, for the United States has now become the great labor mart of the world.

238. The Industrial Menace of the Immigrant[29]

BY EDWARD ALSWORTH ROSS

The facts assembled by the Immigration Commission shatter the rosy theory that foreign labor is drawn into an industry only when native labor is not to be had. The Slavs and Magyars were introduced into Pennsylvania forty-odd years ago by mine operators looking for more tractable miners. Agents were sent abroad to gather up labor, and frequently foreigners were brought in when a strike was on. The first instance seems to have occurred at Drifton in 1870 and resulted in the importation of two shiploads of Hungarians. In 1904, during a strike in the coal-fields, near Birmingham, Alabama, many southern Europeans were brought in. In 1908 "the large companies imported a number of immigrants," so that the strike was broken and unionism destroyed in that region. During the 1907 strike in the iron mines of northern Minnesota, "one of the larger companies imported large numbers of Montenegrins and other Southeastern races as strike-breakers."

The hegira of the English-speaking soft-coal miners shows what must happen when low-standard men undercut high-standard men. The miners of Pennsylvania and West Virginia, finding their unions wrecked and the lot growing worse under the floods of men from southern and eastern Europe, migrated in great numbers to the Middle West and the Southwest. But of late the coal fields of the Middle West have been invaded by multitudes of Italians, Croatians, and Lithuanians, so that even here American and Americanized miners have their backs to the wall. As for the displaced trade-unionists who sought asylum in the mines of Oklahoma and Kansas, the pouring in of raw immigrants has weakened their bargaining power, and many have gone on to make a last stand in the mines of New Mexico and Colorado.

Each exodus left behind an inert element which accepted the harder conditions that came in with the immigrants, and a strong element that rose to better conditions in the mines and in other occupations. As for the displaced, the Iliad of their woes has never been sung—the loss of homes, the shattering of hopes, the untimely set-

[29]Adapted from "The Old World in the New," in *The Century Magazine*, LXXXVII, 29–33. Copyright (1913).

ting to work of children, the struggle for a new foothold, and the turning of thousands of self-respecting men into day laborers, odd-job men, down-and-outers, and "hobos."

During the last fifteen years the flood of gold has brought in a spring-tide of prices. Since 1896 the retail cost to Americans of their fifteen principal articles of food has risen 70 per cent. Wages should have risen in like degree if the workman is to maintain his old standard, to say nothing of keeping his place in a social procession which is continually mounting to higher economic levels. But the workingman has been falling behind in the procession. In the soft-coal field of Pennsylvania, where the Slav dominates, the coal-worker receives 42 cents a day less than the coal-worker in the mines of the Middle West and Southwest, where he does not dominate. In meat-packing, iron and steel, cotton manufacture, and other foreignized industries the inertia of wages has been very marked. The presence of the immigrant has prevented a wage advance which otherwise must have occurred.

What a college man saw in a copper mine in the Southwest gives in a nutshell the logic of low wages. The American miners getting $2.75 a day are abruptly displaced without a strike by a train load of five hundred raw Italians brought in by the company and put to work at from $1.50 to $2.00 a day. For the Americans there is nothing to do but to "go down the road." At first the Italians live on bread and beer, never wash, wear the same filthy clothes night and day, and are despised. After two or three years they want to live better, wear decent clothes, and be respected. They ask for more wages, the bosses bring in another train load from the steerage, and the partly Americanized Italians follow the American miners "down the road."

"The best we get in the mill now is greenhorns," said the superintendent of a tube mill. "When they first come, they put their heart into it and give a full day's work. But after a while they begin to shirk and do as little as they dare." It is during this early innocence that the immigrant accepts conditions that he ought to spurn. The same mill had to break up the practice of selling jobs by foremen. On the Great Northern Railroad the bosses mulcted each Greek laborer a dollar a month for interpreter. The "bird of passage" who comes here to get ahead rather than to live, not only accepts his seven-day week and the twelve-hour day, but often demands them. Big earnings blind him to the cost of overwork. It is the American or the half-Americanized foreigner who rebels against the eighty-four-hour schedule.

When capital plays lord of the manor, the Old World furnishes the serfs. In some coal districts of West Virginia the land, streets, paths, roads, and miners' cabins, the store, the school, and the church are all owned by the coal company. The company pays the teacher, and no priest or clergyman objectionable to it may remain on its domain. One may not step off the railroad's right of way, pass through the streets, visit mine or cabin, without permission. There is no place where miners meeting to discuss their grievances may not be dispersed as trespassers. Any miner who talks against his boss or complains is promptly dismissed and ejected from the 35,000 acres of company land. Hired sluggers, known as the "wrecking-gang," beat up or even murder the organizer who tries to reach the miners. It is needless to say that the miners are all negroes or foreigners.

After an industry has been foreignized, the notion becomes fixed in the minds of the bosses that without the immigrants the industry would come to a standstill. "If it wasn't for the Slavs," say the superintendents of Mesaba mines, "we couldn't get out this ore at all, and Pittsburgh would be smokeless. You can't get an American to work here unless he runs a locomotive or a steam shovel. We've tried it; brought 'em in carloads at a time, and they left."

"Wouldn't they stay for $3.00 a day?" I suggested.

"No, it's not a matter of pay. Somehow Americans nowadays aren't any good for hard or dirty work."

Hard work! And I think of Americans I have seen in their last asylum of the native born, the far West, slaving with ax and hook, hewing logs for a cabin, ripping out the boulders for a road, digging irrigation ditches, drilling the granite, or timbering the drift—Americans shying at open-pit, steam-shovel mining!

The secret is that with the insweep of the unintelligible bunk-house foreigner there grows up a driving and cursing of labor that no self-respecting American will endure. Nor can he bear to be despised as the foreigner is. It is not the work or the pay that he minds, but the stigma. That is why, when a labor force has come to be mostly Slav, it will be all Slav. But if the supply of raw Slavs were cut off, the standards and status of the laborers would rise, and the Americans would come into the industry.

Does the man the immigrant displaces rise or sink? The theory that the immigrant pushes him up is not without some color of truth. In Cleveland the American and German displaced iron-mill workers seem to have been absorbed in other growing industries.

They are engineers and firemen, bricklayers, carpenters, structural iron workers, steamfitters, plumbers, and printers. Leaving pick and wheelbarrow to Italian and Slav, the Irish are now meter-readers, wire-stringers, conductors, motor-men, porters, caretakers, night-watchmen, and elevator men. I find no sign that either the displaced workmen or his sons have suffered from the advent of Pole and Magyar. On the other hand, in Pittsburgh and vicinity, the new immigration has been like a flood sweeping away the jobs, homes, and standards of great numbers, and obliging them to save themselves by accepting poorer employment or fleeing to the West. The cause of the difference is that Pittsburgh held to the basic industries, while in Cleveland numerous high-grade manufacturers started up which absorbed the displaced workmen into the upper part of the laboring force.

Unless there is some collateral growth of skill-demanding industries, the new immigrants bring disaster to many of the workingmen they undercut. The expansion of the industry will create some new jobs, but not enough to reabsorb the Americans displaced. Thus in the iron mines of Minnesota, out of the seventy-five men kept busy by one steam shovel, only thirteen get $2.50 a day or more, and $2.50 is the least that will maintain a family on the American standard. It is plain that the advent of sixty-two cheap immigrants might displace sixty-two Americans, while it would create only thirteen decent-wage jobs for them. Scarcely any industry can grow fast enough to reabsorb into skilled or semi-skilled positions the displaced workmen.

Employers observe a tendency for employment to become more fluctuating and seasonal because of access to an elastic supply of aliens, without family or local attachments, ready to go anywhere or to do anything. In certain centers immigrant laborers form, as it were, visible living pools from which the employer can dip as he needs. Why should he smooth out his work evenly throughout the year in order to keep a labor force composed of family men when he can always take "ginnies" without trouble and drop them without compunction? Railroad shops are coming to hire and to "fire" men as they need them instead of relying upon the experienced regular employees. In a concern that employs 30,000 men the rate of change is 100 per cent a year and is increasing. Labor leaders notice that employment is becoming more fluctuating, that there are fewer steady jobs, and the proportion of men who are justified in founding a home diminishes.

239. Immigration and Unionism[30]

BY W. JETT LAUCK

A significant result of the extensive employment of southern and eastern Europeans in mining and manufacturing is seen in the general weakening and, in some instances, in the entire demoralization of the labor organizations which were in existence before the arrival of the races of recent immigration. This condition of affairs has been due to the inability of the labor-unions to absorb within a short time the constantly increasing number of new arrivals. The southern and eastern Europeans, as already pointed out, because of their tractability, their lack of industrial experience and training, and their necessitous condition on applying for work, have been willing to accept, without protest, existing conditions of employment. Their desire to earn as large an amount as possible within a limited time has also rendered the recent immigrant averse to entering into strikes which involved a loss of time and a decrease in earnings. The same kind of thriftiness has led the immigrant wage-earner to refuse to maintain his membership in the labor-unions for an extended period and has consequently prevented the complete unionization of certain occupations in some cases, and, in others, the accumulation of a defense fund by the labor organizations. The high degree of illiteracy among recent immigrants and the inability of the greater number to speak English have also caused their organization into unions by the native Americans and older immigrants to be a matter of large expense. The difficulty of the situation, from the standpoint of the labor organizations, is further increased by the conscious policy of the employers of mixing races in certain departments or divisions of industries and thus decreasing the opportunities for any concerted action because of a diversity of language in the operating forces. In mining operations, by way of illustration, in many sections, no one race is permitted to secure a controlling number in the operating forces of a single mine or mining occupation because of the fear that a common language would enable them to be readily organized for the purpose of seeking redress for real or fancied grievances.

[30]Adapted from "The Real Significance of Recent Immigration," in the *North American Review,* CXCV, 2008–2009. Copyright (1912).

F. THE FURTHER RESTRICTION OF IMMIGRATION

240. The Menace of the Immigrant Farmer[31]

BY ROBERT D. WARD

To scatter among our rural communities large numbers of aliens whose standards of living are such that they are willing to work for the lowest possible wage, is to expose our native farming population to a competition which is distinctly undesirable. In the corn belt of the west, as Professor T. N. Carver has recently shown, the newer immigrants, because of their lower standards of living, have been able to put more money into land, buildings, and equipment, than the native American farmer; and hence have an advantage in the struggle for existence. Scattering our alien population simply spreads more widely the evils which result from exposing our own people to competition with the lower class of foreigners. Even though Italians displace negroes in the agricultural districts of the South, the effect will undoubtedly be to cause a migration of the negroes to the cities, a result which those familiar with the conditions of the negroes now congested in cities can not fail to view with the greatest alarm. Lastly, the more widely we scatter the newer immigrants, the more widespread will be the effect of the competition with the lower grades of aliens in causing a decrease in numbers among the older portion of our population. American fathers and mothers naturally shrink from exposing their sons and daughters to competition with those who are contented with lower wages and lower standards of living; and therefore the sons and daughters are never born.

Even if the slum population should be distributed throughout the rural sections of the country, congestion in the slums could not be relieved, as long as the tide of new immigration flows on unchecked. Were it not for the continued influx of new immigrants, the problem of the slum burden would not exist. It is quite obvious that the more we try to reduce the pressure of competition among the alien immigrants in our great cities, the more we shall encourage other immigrants, as ignorant and as poor, to come over and take the places vacated. Distribution and a reduction in the number of our immigrants are both needed.

[31]Adapted from an article in the *Popular Science Monthly*, LXVI, 173–175. Copyright (1904).

241. A Protest against Immigration[32]

Resolved, That the unprecedented movement of the very poor to America from Europe in the last three years has resulted in wholly changing the previous social, political, and economic aspects of the immigration question. The enormous accessions to the ranks of our competing wage-workers, being to a great extent unemployed, or only partly employed at uncertain wages, are lowering the standard of living among the masses of the working people of this country, without giving promise to uplift the great body of immigrants themselves. The overstocking of the labor market has become a menace to many trade-unions, especially those of the less skilled workers. Little or no benefit can possible accrue to an increasing proportion of the great numbers yet coming; they are unfitted to battle intelligently for their rights in this republic, to whose present burdens they but add others still greater. The fate of the majority of the foreign wage-workers now here has served to demonstrate on the largest possible scale that immigration is no solution of the world-wide problem of poverty.

Resolved, That we warn the poor of the earth against coming to America with false hopes; it is our duty to inform them that the economic situation in this country is changing with the same rapidity as the methods of industry and commerce.

242. Consular Inspection as a Method of Restriction[33]

BY BROUGHTON BRANDENBURG

Immigration must be either controlled and directed or it must be abolished, and the last-named alternative is eliminated by common sense and considerations of a humane nature. We need the immigrants. Our nation owes its strength today to those who have crossed the ocean in other years. Our great industries need their brawn, our undeveloped regions need their toil, and we can easily accept 150,000,000 more human beings as raw material; but they must come as raw material,—good raw material. That given, our civic atmosphere, our conditions, our national spirit must do the rest, and patriots must look to the children of the immigrants for the results rather than to the immigrants themselves.

[32]These resolutions were adopted by the Executive Board of the United Garment Workers in America after an unsuccessful strike in New York in 1905. The members of this trade are very largely Russian Jews.

[33]Adapted from *Imported Americans,* 297–301. Copyright by Frederick A. Stokes Co. (1904).

Diseased, deformed, or physically insufficient persons are not and never can be good raw material, and should not be allowed to leave their homes, nor should any members of their families on whom they are, or are likely to be, dependent. Convicts, prostitutes, persons engaged in questionable pursuits, anarchists, radical socialists, and political agitators should be excluded.

The true conditions of all such persons is readily ascertainable from the civic, police, and military records in the communes of their residence, to which can be added the supplemental evidence of their neighbors and the local officials of the communes. In the communes of their nativity the truth is known and cannot be hidden. At the ports of embarkation combined influences can deceive the best officials. At the ports of arrival the hand of the inspector is still weaker.

The conclusion is plain; seek the grounds on which to deny passage to emigrants who wish to come to the United States in the villages from which they emanate.

What seems to me to be the best plan to do this, to keep the expense below that which it is at present, and to avoid the opportunities which are sure to be presented for wholesale corruption of American officials by the transportation interests and by the emigrants themselves, is this: Select emigrants before itinerant boards of two, three, or more native-born Americans who speak fluently and understand thoroughly the language and dialects of the people who come before them,—these boards to be on a civil-service basis.

The long diplomatic delays and ensuing red tape of incorporating the privileges of these boards in treaties with the several European governments can be avoided by temporary operation under the present consular system of the United States, and little objection would be met with from any of the governments from whose domains the immigrants come.

The sittings of the boards should be announced by advertisements a sufficient length of time in advance to allow all persons contemplating emigration to prepare to appear for examination. Examiners should be prepared to furnish information as to destinations and opportunities, and could, with care, prevent an increase of the congestion in the cities of the East. In extremity, regulations could be made which would allow them to deny clearance and passage to persons desirous of going to districts already over-populated with aliens.

It is easy to see how these visiting boards could promote emigration among the classes which are most desirable in northern and central Europe, and are now so chary of coming. Families which

have something to lose by being turned back from the United States are loath to dispose of their property and make the venture. If they knew they were certain of admission before they left their homes, a year's time would see the level of the grade of emigrants greatly elevated.

Deportation is the severest punishment which can fall on an alien in comparison with anything less than a several years' imprisonment, and all admissions to the country should be made probationary; the commission of any crime or crimes, and conviction therefor, to be followed by punishment and *then by deportation.* Many of the minor crimes committed by aliens are done with the intention of getting two or three years in prison in which to learn to read and write English and acquire a trade.

243. An Immigration Program[34]

As a result of the investigation the Commission is of the opinion that in legislation emphasis should be laid on the following principles:

1. While the American people welcome the oppressed of other lands, care should be taken that immigration be such in quantity and quality as not to make too difficult the process of assimilation.

2. Further general legislation concerning the admission of immigrants should be based primarily upon economic or business considerations touching the prosperity and economic well-being of our people.

3. The measure of the healthy development of a country is not the extent of its investment of capital, its output of products, or its imports and exports, unless there is a corresponding economic opportunity afforded to the citizen dependent upon employment for his material, mental, and moral development.

4. A slow expansion of industry which permits the adaptation and assimilation of the incoming labor supply is preferable to a very rapid industrial expansion which results in the immigration of laborers of low standards and efficiency, who imperil the American standard of wages and conditions of employment.

The investigations of the Commission show an oversupply of unskilled labor in the basic industries of the country as a whole, and therefore demand legislation which will at the present time re-

[34] Adapted from *A Brief Statement of the Conclusions and Recommendations of the Immigration Commission,* 37–40 (1910).

strict the further admission of such unskilled labor. It is desirable in making these restrictions that:

a. A sufficient number be debarred to produce a marked effect upon the present supply of unskilled labor.

b. The aliens excluded should be those who come to this country with no intention to become American citizens, but merely to save and return to their own country.

c. The aliens excluded should be those who would least readily be assimilated.

The following methods of restricting immigration have been suggested:

a. The exclusion of those unable to read or write in some language.

b. The limitation of the number of each race arriving each year to a certain percentage of the average of that race arriving during a given period of years.

c. The exclusion of unskilled laborers unaccompanied by wives or families.

d. The limitation of the number of immigrants arriving annually at any port.

e. The material increase in the amount of money required to be in the possession of the immigrant at the port of arrival.

f. The material increase in the head tax.

g. The levy of the head tax so as to make a marked discrimination in favor of men with families.

A majority of the Commission favor the reading and writing test as the most feasible single method of restricting undesirable immigration.

244. The Pro and Con of the Literacy Test

a) The Necessity for the Educational Test[35]

BY P. F. HALL

If we are to apply some further method of selection to immigrants what shall it be? It must be a definite test. For one trouble with the present law is that it is so vague and elastic that it can be interpreted to suit the temper of any of the higher officials who may happen to be charged with its execution. While there are many exceptions, those persons who can not read in their own language are, in general, those who are also ignorant of a trade, who

[35]Adapted from an article in the *Annals of the American Academy of Political and Social Science*, XXIV, 183. Copyright (1904).

bring little money with them, who settle in the city slums, who have a low standard of living and little ambition to seek a better, and who do not assimilate rapidly or appreciate our institutions. It is not claimed that an illiteracy test is a test of moral character, but it would undoubtedly exclude a good many persons who now fill our prisons and almshouses, and would lessen the burden on our schools and machinery of justice. In a country having universal suffrage, it is also an indispensable requirement for citizenship, and citizenship in its broadest sense means much more than the right to the ballot. The illiteracy test has passed the Senate three times and the House four times in the last eight years. The test has already been adopted by the Commonwealth of Australia and by British Columbia, and would certainly have been adopted here long since but for the opposition of the transportation companies.

b) Pauperism and Illiteracy[36]

BY KATE H. CLAGHORN

The general conclusion to be drawn with regard to the newer elements in immigration seem to be, first, that among them the unskilled worker gets along better than the skilled, and the illiterate than the literate. This is not to say that skill and education in themselves are a handicap in the industrial contest, or that all racial groups with a large proportion of illiterate, unskilled labor get along better than those having a high degree of literacy and a larger proportion of skill.

Industrial success in this country depends upon adjustment to conditions here. Some groups seem to find suitable openings for skill and education. But on the whole there is more chance for the newcomer into any social aggregation if he is willing to begin at the bottom, and in this country, in particular, there is less demand for skilled labor from outside, owing to the fact that the present inhabitants are willing to follow these lines of work themselves, but are unwilling to occupy themselves in unskilled labor. On the other hand the skill, and especially the education, of the newer European immigrant has been directed along lines that do not suit American conditions. In the evolutionary phrasing, undifferentiated social elements can more easily adapt themselves, by specializing, to fit a new environment, than can the elements which have been already differentiated to fit a former environment.

[36]Adapted from an article in the *Annals of the American Academy of Political and Social Science,* XXIV, 197–198. Copyright (1904).

Any restriction of immigration, then, that is based on an educational qualification, would be meaningless with respect to the growth of pauperism. Such a qualification would, among the newer immigrants at least, let in the class which though small is the most difficult to provide for, and would keep out the class that can best provide for itself.

c) *From the Men at the Gate*[37]

BY LOUIS S. AMONSON

We've dug your million ditches,
  We've built your endless roads,
We've fetched your wood and water,
  And bent beneath the loads.
We've done the lowly labor
  Despised by your own breed;
And now you won't admit us
  Because we can not read.

Most crooks are educated,
  And to the manner born;
Their white hands show no callous,
  They look on us with scorn.
Mere learning is not virtue,
  The word is not the deed
Disdain, then, not your toilers
  Because they can not read.

We've given honest labor,
  And liked our humble lot;
Our children learn the letters
  Their fathers haven't got.
We've fled from persecution
  And served you in your need,
But now you would debar us
  Because we can not read.

Good friends, if we are brothers,
  Why do you raise this test?
Will talk, then, till your acres
  And feed your people best?
Your children, trained as idlers,
  Some workers you must need
Don't bar our only refuge
  Because we can not read.

Your farms are half deserted,
  Up goes the price of bread;
Your boasted education
  Turns men to clerks instead.
We bring our picks and shovels
  To meet your greatest need;
Don't shut the gate upon us
  Because we can not read.

d) *Our Immigration Policy*[38]

In two particulars of vital consequence this bill embodies a radical departure from the traditional and long-established policy of this country, a policy in which our people have conceived the very character of their government to be expressed, the very mission and spirit of the nation in respect of its relations to the peoples of the world outside their borders. It seeks to all but close entirely the gates of asylum which have always been open to those who

[37]From *The Square Deal,* XII, 165–166 (1913).

[38]Adapted from the Message of the President of the United States Vetoing H.R. 6060, 63d Cong., 3d sess., Document 1527, 3-4 (1915). This bill provided for the so-called "literacy test" for admission of aliens into this country.

could find nowhere else the right and opportunity of constitutional agitation for what they conceived to be the natural and inalienable rights of men; and to exclude those to whom the opportunities of elementary education have been denied, without regard to their character, their purposes, or their natural capacity.

Restrictions like these adopted earlier in our history as a nation, would very materially have altered the course and cooled the human ardor of our politics. The right of political asylum has brought to this country many a man of noble character and elevated purpose who was marked as an outlaw in his own less fortunate land, and who has yet become an ornament to our citizenship and to our public councils. The children and the compatriots of these illustrious Americans must stand amazed to see the representatives of their nation now resolved, in the fulness of our national strength and at the maturity of our great institutions, to risk turning men back from our shores without test of quality or purpose. It is difficult for me to believe that the full effect of this feature of the bill was realized when it was framed and adopted, and it is impossible for me to assent to it in the form in which it is here cast.

The literacy test and the tests and restrictions which accompany it constitutes an even more radical change in the policy of the nation. Hitherto we have generously kept our doors open to all who were not unfitted by disease or incapacity for self-support or such personal records or antecedents as were likely to make them a menace to our peace and order or to the wholesome and essential relationships of life. In this bill it is proposed to turn away from tests of character and of quality and impose tests which exclude and restrict; for the new tests here embodied are not tests of quality or of character of personal fitness, but tests of opportunity. Those who come seeking opportunity are not to be admitted unless they have already had one of the chief opportunities they seek, the opportunity of education.

WOODROW WILSON

245. Wanted—An Immigration Policy[39]

A friend of ours languidly expatiates upon the folly of answering letters. "Lay them away in the drawer," he advises, "and after a month or perhaps six months they will have answered themselves."

In much the same spirit our Congressmen are advised that no immigration policy is necessary, that if they will but leave the pend-

[39]Adapted from an editorial in the *New Republic,* December 26, 1914, 10–11. Copyright.

ing Immigration bill alone, they will not have abjured labor in vain. The immigration question, left to itself, will answer itself. The alien will become an American, the capables absorbed in our national organism, the incapables rejected. Moreover, the countries from which our immigrants come will gradually lose their surplus of men, and immigration will cease without legislation as our own westward migration to an ever-receding frontier ceased of itself when our free lands became exhausted.

This theory of the automatic drying up of the sources of immigration has been emphasized more strongly than ever since the outbreak of the war. If the war lasts a year or more millions will be killed and other millions will be permanently incapacitated.

But even though population does decline, it does not follow that the immigrating impulse will be lessened. The rapid decrease of the Irish population during the half-century after the famine did not retard but actually accelerated the immigration. It is not from countries with lessened population, but from countries with lessened economic opportunities that population proceeds. And it is exactly this lessening of economic opportunities that we have to fear as a result of the war. Capital will be dissipated, credit shattered, and whole trades, the learning of which has cost years of arduous labor, will be for the time discounted. The system will accommodate itself only slowly to the sudden withdrawal, and later the sudden replacement of millions of wage-earners.

If then, as is to be feared, new armies of ragged and unemployed are to be enrolled as soon as the armies in uniform are disbanded, if wages fall and life becomes insecure, the outward pressure upon the huge wage-earning populations of Europe will be overwhelming, and those who have the means will seek to emigrate. There will be restless millions of former wage-earners in whom the fierce emotions of war have made an end to all those industrial ambitions and acquiescences so habitually ignored, and yet vitally essential, to the mere existence of society. Others, having lost their farms or their little shops or houses, or their wives and families, and still others who have had their country and their patriotism swept away from under the feet will be discontented and mobile. The world will be full of foot-loose adventurers, good and bad, filled with romantic illusions or else utterly disenchanted, and to these broken lives America will appeal with a freshness of attraction such as she has not possessed since the days of '48, when the defeated revolutionists of Germany turned westward to a land which to them embodied the liberal principles for which they had been struggling.

And recalling, as we must, the high reverence for the America of that day, and this ideal picture of her which may still be found in the hearts of boys risking their lives in the cold trenches—recalling this, does it seem sinister to close the doors upon this misery, to make the wretchedness of the European our excuse for debarring him? It may be sinister. Yet what else has been or can be the justification of that policy of self-defense which we seek to express in some adequate restriction or regulation of a swelling immigration? Wretchedness is infectious, and no contagion is more deadly than that of poverty. It is the poverty and the resourcefulness of the immigrant, which, handing him over to the exploiter, renders him so dangerous to himself and to others. To justify a policy of restriction we need only oppose the wisdom of facing problems concretely and courageously to the folly of leaving things as they are. If we are to protect ourselves and the immigrant from exploitation, impoverishment, and a fierceness and lawlessness of economic struggle, which too often brands the victor with an indelible brand and leaves the victim crushed and demoralized, we must work out a statesmanlike policy of immigration and end our listless method of sitting grandiloquently at the gate and letting all enter, irrespective of their needs or ours, provided only they have thirty dollars and ungranulated eyelids.

All of which does not mean that we favor the bill at present before Congress or even the principle of the literacy test. The value or valuelessness of such a test is a matter of proof, and the burden of such proof rests squarely upon its advocates. Is this test really a test? Is it selective of the best? Or is it merely repressive, a cutting down of the number of immigrants without regard to merit or capacity, as a law excluding red-headed immigrants would cut down the number? Is illiteracy a real disqualification and the fault of the immigrant, or is it a part of the very conditions which he has the courage to flee?

We ask these questions without too definitely suggesting our answer. We do not, however, conceal our preference for some form of immigration policy larger, more constructive, more educative and human, and less rigidly restrictive than that which is now proposed. Such a policy as we have in mind would enable highly trained and highly paid government experts, resident in Europe, to meet the aspirant for immigration months or even years before he started on his travels, and it would keep the government in touch with him during a period not less than five years after his immigration. In other words, the plan which we should like to see elaborated is a federal

system of supervision of the alien, of advice, of protection, of education, based upon his special needs and his peculiar legal status, a system for his benefit, and incidentally for the benefit of the rest of us, a system supported by special taxes paid by aliens, and also, if desirable, by contributions out of the general treasury. Such a system could be rendered workable by lengthening to five years the period during which the government has the right to deport, though in our opinion in each case the right should be subject to an appeal by the alien to the courts. Given this right, however, the government might exercise over the immigrant the same sort of benevolent guardianship that the state now exercises over the legal infant. Not only could it provide special facilities for his education, but it could make the acquisition of a certain amount of knowledge a necessary condition of his continued stay in this country. It might advise the alien in every stage of his career, establish interstate employment bureaus, and constitute itself a clearing-house for information concerning industrial and social conditions in all places to which the immigrant might be tempted to go. It could do much to prevent the extortion and exploitation of the immigrant, and it could diminish that unequal distribution of aliens which leads to congestion, unemployment, and the aggravation of many social evils.

G. IMMIGRATION AND OUR FUTURE

246. The Economics of Immigration[40]

BY FRANK A. FETTER

The current objections to immigration are mainly based on the alleged evil effects to the political, social, and moral standards of the community. It is often asserted that present immigration is inferior in racial quality to that of the past. Whatever be the truth and error mingled in these views, we are not now discussing them. Our view is wholly impersonal and without race prejudice. If the present immigration were all of the Anglo-Saxon race, were able to speak, read, and write English, and had the same political sentiments and capacities as the earlier population, the validity of our present conclusions would be unaffected.

When our policy of unrestricted immigration is thus opposed to the interests of the mass of the people, its continuation in a democracy where universal manhood suffrage prevails is possible

[40]Adapted from "Population or Prosperity," in *The American Economic Review,* III, No. 1, Supplement, 13–16. Copyright (1912).

only because of a remarkable complexity of ideas, sentiments, and interests, neutralizing each other and paralyzing action. The American sentiment in favor of the open door to the oppressed of all lands is a part of our national heritage. The wish to share with others the blessings of freedom and of economic plenty is the product of many generations of American experience. The policy had mainly an economic basis; land was here a free good on the margin of a vast frontier. Most citizens benefited by a growing population. But the open door policy is vain to relieve the condition of the masses of other lands. Emigration from overcrowded countries, with the rarest exceptions, leaves no permanent gaps. Natural increase quickly fills the ranks of an impoverished peasantry. Lands whose people are in economic misery must improve their own industrial organization, elevate their standards of living, and limit their numbers. If they go on breeding multitudes which find an unhindered outlet in continuous migration to more fortunate lands, they can at last but drag others down to their own unhappy economic level.

The pride of immigrants and of their children, sometimes to the second and third generations, is another strong force opposing restriction. Immigrants, having become citizens, are proud of the race of their origin, and resent restriction as a reflection upon themselves and their people.

A strong commercial motive operates in the most influential class of employers in favor of the continuance of immigration. From the beginning of our history, proprietors and employers have looked with friendly eyes upon the supplies of comparatively cheap labor coming from abroad. Large numbers of immigrants or of their children have been able soon, in the conditions of the times, to become proprietors and employers. Thus was hastened the peopling of the wilderness. The interest of these classes harmonized to a certain point with the public interest; but likewise it was in some respects in conflict with the abiding welfare of the whole nation. It encouraged much defective immigration from Europe.

The immigration from Europe has furnished an ever changing group of workers moderating the rate of wages which employers otherwise would have had to pay. The continual influx of cheap labor has aided in imparting values to all industrial opportunities. A large part of these gains have been in the trade, manufactures, and real estate of cities as these have taken and retained an ever growing share of the immigrants. Successive waves of immigration, composed of different races, have been ready to fill the ranks of the unskilled workers at meager wages. This continuous inflow has

in many industries come to be looked upon as an indispensable part of the labor supply. Conditions of trade, methods of manufacturing, prices, profits, and the capital value of the enterprises have become adjusted to the fact. Hence results one of those illusions cherished by the practical world when it identifies its own profits with the public welfare. Without immigration, it is said, the supply of labor would not be equal to the demand. It would not at the present wages. Supply and demand have reference to a certain price. At a higher wage the amount of labor offered and the amount demanded will come to an equality. This would temporarily curtail profits, and other prices would, after readjustment, be in a different ratio to wages. Such a prospect is most displeasing to the commercial world, quick to see disaster in a disturbance of profits, slow to see popular prosperity in rising wages.

The labor supply coming from countries of denser population and with low standards of living creates, in some occupations, an abnormally low level of wages and prices. Children can not be born in American homes and raised on the American standard of living cheaply enough to maintain at such low wages a continuous supply of laborers. Many industries and branches of industry in America are thus parasitical. A condition essentially pathological has come to be looked upon as normal. It is the commercial ideal which imposes itself upon the minds of men in other circles.

What tremendous forces are combined in favor of a policy of unrestricted immigration: sentiment and business, generosity, selfishness, laborers, employers. All men are prone to view immigration in its details, not in its entirety. They see this or that individual or class advantage, not the larger national welfare. The interests of capitalists and of the newly arriving immigrants are abundantly considered; the interests of the mass of the people now here are overlooked.

247. The Immigrant an Industrial Peasant?[41]

BY H. G. WELLS

Will the reader please remember that I've been just a few weeks in the States altogether, and value my impressions at that! And will he, nevertheless, read of doubts that won't diminish. I doubt very much if America is going to assimilate all that she is taking in now; much more do I doubt that she will assimilate the still greater inflow of the coming years. I believe she is going to find

[41]Adapted from *The Future in America,* 142–147. Copyright by Harper & Bros. (1906).

infinite difficulties in that task. By "assimilate" I mean make intelligently coöperative citizens of these people. She will, I have no doubt whatever, impose upon them a bare use of the English language, and give them votes and certain patriotic persuasions, but I believe that if things go on as they are going the great mass of them will remain a very low class—will remain largely illiterate industrialized peasants. They are decent-minded peasant people, orderly, industrious people, rather dirty in their habits, and with a low standard of life. Wherever they accumulate in numbers they present to my eye a social phase far below the level of either England, France, north Italy, or Switzerland. And, frankly, I do not find the American nation has either in its schools—which are as backward in some States as they are forward in others—in its press, in its religious bodies or its general tone, any organized means or effectual influences for raising these huge masses of humanity to the requirements of an ideal modern civilization. They are, to my mind, "biting off more than they can chaw" in this matter.

Bear in mind always that this is just one questioning individual's impression. It seems to me that the immigrant arrives an artless, rather uncivilized, pious, goodhearted peasant, with a disposition towards submissive industry and rude effectual moral habits. America, it is alleged, makes a man of him. It seems to me that all too often she makes an infuriated toiler of him, tempts him with dollars and speeds him up with competition, hardens him, coarsens his manners, and, worst crime of all, lures and forces him to sell his children into toil. The home of the immigrant in America looks to me worse than the home he came from in Italy. It is just as dirty, it is far less simple and beautiful, the food is no more wholesome, the moral atmosphere far less wholesome; and, as a consequence, the child of the immigrant is a worse man than his father.

I am fully aware of the generosity, the nobility of sentiment, which underlies the American objection to any hindrance to immigration. But either that general sentiment should be carried out to a logical completeness and gigantic and costly machinery organized to educate and civilize these people as they come in, or it should be chastened to restrict the inflow to numbers assimilable under existing conditions. At present, if we disregard sentiment, if we deny the alleged need of gross flattery whenever one writes of America for Americans, and state the bare facts of the case, they amount to this: that America, in the urgent process of individualistic industrial development, in its feverish haste to get through with its material possibilities, is importing a large portion of the peasantry of central and eastern Europe, and converting it into a

practically illiterate industrial proletariat. In doing this it is doing a something that, however different in spirit, differs from the slave trade of its early history only in the narrower gap between employer and laborer. In the "colored" population America has already ten million descendants of unassimilated and perhaps unassimilable labor immigrants. These people are not only half civilized and ignorant, but they have infected the white population about them with a kindred ignorance. For there can be no doubt that if an Englishman or Scotchman of the year 1500 were to return to earth and seek his most retrograde and decivilized descendants, he would find them at last among the white and colored population south of Washington. And I have a foreboding that in this mixed flood of workers that pours into America by the million today, in this torrent of ignorance, against which that heroic being, the schoolmarm, battles at present all unaided by men, there is to be found the possibility of another dreadful separation of class and kind, a separation perhaps not so profound but far more universal. One sees the possibility of a rich industrial and mercantile aristocracy of western European origin, dominating a darker-haired, darker-eyed, uneducated proletariat from central and eastern Europe. The immigrants are being given votes, I know, but that does not free them, it only enslaves the country. The negroes were given votes.

These are all mitigations of the outlook, but still the dark shadow of disastrous possibility remains. The immigrant comes in to weaken and confuse the counsels of labor, to serve the purposes of corruption, to complicate any economic and social development, above all to retard enormously the development of that national consciousness and will on which the hope of the future depends.

248. The Influence of the Immigrant on America[42]

BY WALTER E. WEYL

When we seek to discover what is the exact influence of the immigrant upon his new environment, we are met with difficulties almost insurmountable. Social phenomena are difficult to isolate. The immigrant is not merely an immigrant. He is also a wage-earner, a city-dweller, perhaps, also an illiterate. Wage-earning, city-dwelling, and illiteracy are all contributing influences. Your

[42] Adapted from "New Americans," in *Harper's Monthly Magazine*, CXXIX, 616–617, 620–622. Copyright (1914).

immigrant is a citizen of a new factory, of the great industrial state, within, yet almost overshadowing the political state. Into each of our problems—wages and labor, illiteracy, crime, vice, insanity, pauperism, democracy—the immigrant enters.

There is in all the world no more difficult, no more utterly bewildering problem than this of the intermingling of races. Already twenty million immigrants have come to stay. To interpret this pouring of new, strange millions into the old, to trace its results upon the manners, the morals, the emotional and intellectual reactions of the Americans, is like searching out the yellow waters of the Missouri in the vast floods of the lower Mississippi. Our immigrating races are many, and they meet diverse kinds of native Americans on varying planes and at innumerable contact points. So complex is the resulting pattern, so multifarious are the threads interwoven into so many perplexing combinations, that we struggle in vain to unweave the weaving.

When we compare the America of today with the America of half a century ago, certain differences stand out sharply. America today is far richer. It is also more stratified. Our social gamut has been widened. There are more vivid contrasts, more startling differences, in education and in the general chances of life. We are less rural and more urban, losing the virtues and the vices, the excellences and the stupidities of country life, and gaining those of the city. We are massing in our cities armies of the poor to take the places of country ne'er-do-wells. We are more sophisticated. We are more lax and less narrow. We have lost our early frugal simplicity, and have become extravagant. We have, in short, created a new type of the American, who lives in the city, who reads newspapers and even books, bathes frequently, travels occasionally; a man fluent intellectually and physically restless, ready but not profound, intent upon success, not without idealism, but somewhat disillusioned, pleasure-loving, hard-working, humorous. At the same time there grows a sense of a social maladjustment, a sense of failure in America to live up to expectations, and an intensifying desire to right a not clearly perceived wrong. There develops a vigorous, if somewhat vague and untrained, moral impulse based on social rather than individual ethics, unaesthetic, democratic, headlong.

Although this development might have come about in part at least without immigration the process has been enormously accelerated by the arrival on our shores of millions of Europeans. These men came to make a living, and they made not only their own but other men's fortunes. They hastened the dissolution of old conditions; they undermined old standards by introducing new; their

very traditions facilitated the growth of that traditionless quality of the American mind which hastened our material transformation.

Because of his position at the bottom of a stratified society the immigrant does not exert any large direct influence. His indirect influence, on the other hand, is increased rather than diminished by his position at the bottom of the structure. When he moves, all superincumbent groups must of necessity shift their positions. This indirect influence is manifold. The immigration of enormous numbers of unskilled "interchangeable" laborers, who can be moved about like pawns, standardizes our industries, facilitates the growth of stupendous business units, and generally promotes plasticity. The immigrant by his very readiness to be used speeds us up; he accelerates the whole *tempo* of our industrial life. He changes completely the "balance of power" in industry, politics, and social life generally. The feverish speed of our labor, which is so largely pathological, is an index of this. The arrival of ever fresh multitudes adds to the difficulties of securing a democratic control of either industry or politics. The presence of the unskilled, unlettered immigrant excites the cupidity of men who wish to make money quickly and do not care how. It makes an essentially kind-hearted people callous. Why save the lives of "wops"? What does it matter if our industry kills a few thousands more or less, when, if we wish, we can get millions a year from inexhaustible Europe? Immigration acts to destroy our brakes. It keeps us, as a nation, transitional.

Of course this transitional quality was due partly to our virgin continent. There was always room in the West. Immigration, however, intensified and protracted the development. Each race had to fight for its place. Natives were displaced by Irish, who were displaced in turn by Germans, Russians, Italians, Portuguese, Greeks, Syrians. Whole trades were destroyed by one nation and conquered by another. The old homes of displaced nations were inhabited by new peoples; the old peoples were shoved up or down, but, in any case, out. Cities, factories, neighborhoods changed with startling rapidity. Connecticut schools, once attended by descendants of the Pilgrims, became overfilled with dark-eyed Italian lads and tow-headed Slavs. Protestant churches were stranded in Catholic or Jewish neighborhoods. America changed rapidly, feverishly. The rush and recklessness of our lives were increased by the mild, law-abiding people who came to us from abroad.

There was a time when all these qualities had their good features. So long as we had elbow room in the West, so long as we were young and growing, with a big continent to make our mistakes in, even recklessness was a virtue. But today America is no longer

elastic; the road from bottom to top is not so short and not so unimpeded as it once was. We cannot any longer be sure that the immigrant will find his proper place in eastern mills or on western farms without injury to others—or to himself.

The time has passed when we believed that mere numbers was all. Today, despite the whole network of Americanizing agencies, we have teeming, polyglot slums, and the clash of race with race in sweatshop and factory, mine and lumber camp. We have a mixture of ideals, a confusion of standards, a conglomeration of clashing views on life. We, the many-nationed nation of America, bring the Puritan tradition, a trifle anæmic and thin, a little the worse for disuse. The immigrant brings a Babel of traditions, an all too plastic mind, a willingness to copy our virtues and our vices, to imitate us for better or for worse. All of which hampers and delays the formation of national consciousness.

From whatever point we view the new America, we cannot help seeing how intimately the changes have been bound up with our immigration, especially that of recent years. The widening of the social gamut becomes more significant when we recall that with unrestricted immigration our poorest citizens are periodically recruited from the poor of the poorest countries of Europe. Our differences in education are sharply accentuated by our enormous development of university and high schools at one end, and by the increasing illiteracy of our immigrants at the other.

America today is in transition. We have moved rapidly from one industrial world to another, and this progress has been aided and stimulated by immigration. The psychological change, however, which should have kept pace with this industrial transformation, has been slower and less complete. It has been retarded by the very rapidity of our immigration. The immigrant is a challenge to our highest idealism, but the task of Americanizing the extra millions of newcomers has hindered progress in the task of democratizing America.

H. THE QUALITY OF POPULATION

249. The Breeding of Men[43]

BY PLATO

"Then tell me, Glaucon, how is this result to be attained? For I know that you keep in your house both sporting dogs and a great number of game birds. I conjure you, therefore, to inform me

[43]Adapted from *The Republic,* V, 459–460 (385 B. C.).

whether you have paid any attention to the breeding of these animals."

"In what respect?"

"In the first place, though all are well bred, are there not some which are, or grow to be, superior to the rest?"

"There are."

"Do you then breed from all alike, or are you anxious to breed as far as possible from the best?"

"From the best."

"And if you were to pursue a different course, do you think that your breed of birds and dogs would degenerate very much?"

"I do."

"Good heavens! my dear friend," I exclaimed, "what very first-rate men our rulers ought to be, if the analogy holds with respect to the human race."

"Well, it certainly does."

"The best of both sexes ought to be brought together as often as possible, and the worst as seldom as possible, and the issue of the former unions ought to be reared, and that of the latter abandoned, if the flock is to attain first-rate excellence."

"You are perfectly right."

"Then we shall have to ordain certain festivals at which we shall bring together the brides and bridegrooms, and we must have sacrifices performed, and hymns composed by our poets in strains appropriate to the occasion; but the number of marriages we shall place under the control of the magistrates, in order that they may, as far as they can, keep the population at the same point, taking into consideration the effects of war and disease, and all such agents, that our city may, to the best of our power, be prevented from becoming either too great or too small."

250. Derby Day and Social Reform[44]

SIR: Which is wrong—the breeder of race horses or Mr. Lloyd-George? Would racing men do better with their animals if they adopted all the methods which Parliament has imposed upon us in recent years as the right way to improve the efficiency of the human race? How would it be if they swept up the whole equine progeny of the country, each generation as it came, and applied social reform to it—if they provided it with stables sanitarily inspected, if they

[44]A letter published in the *London Times,* May 26, 1909.

caused all its units to pass under the hands of certified trainers, if they pensioned off the old hacks, and provided bank holidays for the young, and, finally, if they left the whole question of the breeding of the beasts to chance? If English racing men adopted our governmental system, is it not certain that English race horses would be beaten everywhere by horses bred by selection? Yet no one suggests any interference with the breeding of the human race. It is only royal marriages that have to be publicly approved. My suggestion that the same kind of interference should be applied to the marriages of peers has not exactly "caught on." In their case the hereditary principle is accepted but not scientifically applied.

Not only does Parliament in its so-called wisdom fail to apply science to the production of hereditary legislators, but in all recent social legislation it has actually penalized the fitter classes in society in the interests of the less fit. The least fit in the country are the old people who have failed to provide any savings against their old age, and that large class of cheats who manage to pretend that they are in that case. An as yet uncounted number of millions sterling is now to be taken year after year from the fitter classes and doled out to these unfittest. No one can tell how many children that would have been born to these fitter parents will now have to go unborn. The old people used to be supported by their relations, who presumably inherited a like unfitness; those relatives, now indirectly endowed, can now produce more children in place of the fitter children whose entry into the world has been blocked. All so-called social legislation tends to act in the same way. The birth rate of the fitter is diminishing year by year and we calmly sit by and watch the consequent degeneration of our race with idle hands. We take the human rubbish that emerges and give it compulsory education, housing acts, inspection of all sorts and at all seasons, at the expense of the fitter class, and imagine that better results will ensue than if we left the whole business alone. Are we right? Or are the horse breeders right? They have demonstrably improved the race of horses, and with great rapidity. The old system of "let alone" also improved, though more slowly, the race of men. It is only the modern system of penalizing the fit for the sake of the unfit that seems to be put in action simultaneously with, if it does not cause, an observed race-degeneration.

I am, Sir, yours faithfully,

MARTIN CONWAY

251. Eugenics and the Social Utopia[45]

BY GEORGE P. MUDGE

With regard to man, it is now clear that what medicine, social reform, legislation, and philanthropy have failed to accomplish can be achieved by biology. Tell the student of genetics what type of nation we desire, within the limits of the characters which the nation already possesses, and confer upon him adequate powers, and he will evolve it. It is not too much to say that if he were instructed to evolve a "fit" nation—that is, one of self-restrained and self-supporting individuals—in the course of a few generations there would be neither workhouses, hospitals, unemployables, congenital criminals, or drunkards.

Students of eugenics will turn with interest to the concluding pages of Professor Bateson's book; there he deals with the sociological application of the science of genetics. We commend every advocate of social panaceas and of legislative interference with natural processes to read this part of the book. In a few well-chosen sentences he gives expression to the judgment of every biologist, alike of the present and the past, who has given to social problems adequate and unbiased thought. For nothing is more evident to the naturalist than that we cannot convert inherent vice into innate virtue, nor change leaden instincts into golden conduct, nor "transform a sow's ear into a silken purse," by any known social process. Our vast and costly schemes of free compulsory education, of county council scholarships and evening classes, which are among these social processes supposed to possess the magic virtue of transforming the world into a fairy land, may be a delusion and a danger. And so, too, may be all the other well-intentioned but costly panaceas that harass, and tax, and eventually destroy the fit in order to attempt—for they can never achieve—the salvation of the unfit.

252. Immigration and Eugenics[46]

BY WALTER E. WEYL

We must not forget that these men and women who file through the narrow gates at Ellis Island, hopeful, confused, with bundles of misconceptions as heavy as the great sacks upon their backs—we

[45]Adapted from a review of Bateson's *Mendel's Principles of Heredity*, in *The Eugenics Review*, I, 137 (1909).

[46]Adapted from "New Americans," in *Harper's Monthly Magazine*, CXXIX, 615–616. Copyright (1914).

must not forget that these simple, rough-handed people are the ancestors of our descendants, the fathers and mothers of our children.

So it has been from the beginning. For a century a swelling human stream has poured across the ocean, fleeing from poverty in Europe to a chance in America. One race after another has knocked at our doors, been given admittance, has married us and begot our children. We could not have told by looking at them whether they were to be good or bad progenitors, for racially the cabin is not above the steerage, and dirt, like poverty and ignorance, is but skin deep. A few hours and the stain of travel has left the immigrant's cheek; a few years and he loses the odor of alien soils; a generation or two, and those outlanders are irrevocably our race, our nation, our stock.

That stock a little over a century ago was almost pure British. Despite the presence of Germans, Dutch, French, and Negroes, the American was essentially an Englishman once removed, an Englishman stuffed with English traditions, prejudices, and stubbornnesses, reading English books, speaking English dialects, practicing English law and English evasions of law, and hating England with a truly English hatred. Even after immigration poured in upon us, the English stock was strong enough to impress upon the immigrating races its language, laws, and customs. Nevertheless, the incoming millions profoundly altered our racial structure. Today over thirty-two million Americans are either foreign born or of foreign parentage. America has become the most composite of nations.

We cannot help seeing that such a vast transfusion of blood must powerfully affect the character of the American. What the influence is to be, however, whether for better or for worse, is a question most baffling. Our optimists conceive the future American, the child of this infinite intermarrying, as a glorified, synthetic person, replete with the best qualities of all the component races. He is to combine the sturdiness of the Bulgarian peasant, the poetry of the Pole, the vivid artistic perception of the Italian, the Jew's intensity, the German's thoroughness, the Irishman's *verve*, the tenacity of the Englishman, with the initiative and versatility of the American. The pessimist, on the other hand, fears the worst. America, he believes, is committing the unpardonable sin; is contracting a *mésalliance,* grotesque and gigantic. We are diluting our blood with the blood of lesser breeds. We are suffering adulteration. The stamp upon the coin—the flag, the language, the national sense—remains, but the silver is replaced by lead.

All of which is singularly unconvincing. In our own families, the children do not always inherit the best qualities of father and

mother, and we have no assurance that the children of mixed races have this selective gift and rise superior to their parent stocks. Nor do we know that they fall below. We hear much about "pure" races and "mongrel" races. But is there in all the world a pure race? The Jew, once supposed to be of Levitical pureness, is now known to be racially unorthodox. The Englishman is not pure Anglo-Saxon, the German is not Teutonic, the Russian is not Slav. To be mongrel may be a virtue or a vice. We do not know. The problem is too subtle, too elusive, and we have no approved receipts in this vast eugenic kitchen. Intermarrying will go on whether we like it or loathe it, for love laughs at racial barriers and the maidens of one nation look fair to the youth of another. Let the kettle boil, and let us hope for the best.

253. The Rationale of Eugenics[47]

BY JAMES A. FIELD

A review of what has been accomplished in the field of eugenics during the last decade clearly reveals that most of the solid writing and of the really scientific and useful work has come from the biologists. The competent student of economic and social questions has rendered little aid. Perhaps until now his abstention from the discussion has been wise. Experts were not needed to repeat the memorable suggestion that a civilization which should acquire control over the qualities of the human breed might thereby control human welfare also. That suggestion, vital in itself, has been readily enough kept alive by the conviction of the inexpert that anything is the better for tinkering; meanwhile, the biologists have been coming more and more to the conclusion that whoever can determine marriage selection in the present will determine, within large limits, the physique and intellect of the future, and will become in a new sense the maker of history. But in proportion as the biologist foreshadows the physical possibilities of heredity and selection, the want grows for wisdom with which to utilize them. What sort of history, then, is best worth the making? What sort of history does it lie within our power to bring to pass? Is this momentous marriage selection, from motives half rational, half mystical, in their veneration of the continuance of life, to prevail in spite of popular ignorance and passion? Or, leaving this question of practicability for experience to decide, is it after all sensible to burden the present generation with concern for generations of the future whose needs

[47]Adapted from "The Progress of Eugenics," in the *Quarterly Journal of Economics,* XXVI, 61-67. Copyright (1911).

we can hardly foretell; and, in subservience to the science of the day, to repudiate instinct older than all human experience by "falling in love intelligently"? We have need of a social philosophy to tell us how far eugenic reforms are reasonable and worth while.

Even in its broadly biological aspects eugenics is involved in the long-standing demarkation dispute over the respective jurisdictions of man's artificial control and the unmodified course of natural evolution. Less than twenty years ago one of the greatest of biologists, writing on this very subject, declared in no uncertain terms his disbelief in the practice of artificial selection as a means of human betterment. Knowledge has grown, no doubt, since *Evolution and Ethics* was written, and new discoveries have gone far to discredit Huxley's belittlement of the potency of human selective agencies. The details of the biological mechanism by which changes are effected have become far better known. More dubious is the question how much advance has been made toward a wise guidance of such agencies. For Huxley, there was "no hope that mere human beings will ever possess enough intelligence to select the fittest." Possibly the social consciousness of a people is an abler guide than he recognized. Perhaps, although the fittest state of society is beyond our perception, we may achieve by means of eugenic selection a succession of experimental changes which seem to us for the better. But still the order of nature decrees that eugenic experiments made in haste are repented at leisure. The eugenist who modifies the race type in the present predetermines for better or worse the mental and physical endowment of distant posterity. In the final analysis, eugenics, like other attempts at lasting reform, must move with the stream of processes which preceded human intervention and limit it still. While in such a stream a steered course may well be better than mere drifting, the eugenist in action must always proceed with the caution of one who reckons with the inscrutable.

If the task of eugenics were to establish a new aristocracy of inborn ability, the prospect of success would be less obscure. The historical institutions of ruling castes and hereditary nobilities have shown that the special capacity which in one generation after another can seize upon and retain for itself special opportunity has long been competent to raise the family line of its possessors above their less favored fellowmen. Now modern biology, from a new standpoint and with new significance, reasserts the privilege of birth. It is not surprising, therefore, that writers arguing for the eugenic selection which shall perpetuate and intensify exceptional ability, have virtually proposed an aristocratic social order of a novel kind. But every preferment of the abler members of a community is tanta-

mount to a degradation of the less gifted. To create an exclusive caste founded on eugenic superiority would be to intensify the unhappiness of such persons as are already inferior. The principle of the survival of the fittest normally involves wholesale sacrifices of the unfit; but such unmitigated rigor of selection does not commend itself as a humane method of social amelioration. Nor is the temper of the times favorable to aristocracies of any sort. It calls for a general betterment of the whole mass of mankind.

Can eugenics bring to pass this universal improvement? Probably many a devoted follower of the cause has assumed that if its benefits can be realized by any they might be extended to all. Such was the vision of Greg: "Every damaged and inferior temperament might be eliminated, and every special and superior one be selected and enthroned, till the human race, both in its manhood and its womanhood, became one glorious fellowship of saints, sages, and athletes; till we were all Blondins, all Shakespeares, Pericles, Socrates, Columbuses, and Fenelons." But to hold such opinions is to ignore the relativity of success and to miss the very meaning of eminence. In a world of Blondins a tightrope walker would command no profit or applause. A world of great teachers would lack pupils to be taught. The unknown continent which everyone had found could hardly immortalize its multitudinous discoverers. Nor could any one master-dramatist make mankind his audience so long as all clamored with equal right for hearing. Unfortunately, too often we overlook, in our projects for reform, the comparative character of individual attainments and individual happiness. We bemoan the rarity of greatness, forgetting how largely the exceptional individuals whom we call great are great because they are exceptional. If, then, we are to elevate the whole community, we must work with a standard free from the element of invidiousness; for no social reform can achieve a general improvement of men's positions relative to the positions of their fellowmen.

Apparently, then eugenic selection is concerned not with the conditions of eminence but with the conditions of efficiency. It must work for the internal efficiency which we roughly call sanity and a good constitution, and for the external efficiency which enables an individual, regardless of the comparative efficiency of other individuals, to make steady progress in forcing his non-human surroundings into conformity with his needs. Doubtless the distinctions here applied are indefinite. For instance, the personal advantages of health and strength are diminished if equal physical vigor becomes the possession of all. Unusual prowess in exploiting external physical resources has notoriously been among the most potent causes of

inequality. Yet, in a civilization which already ministers by palliatives to ill-health; and in which the distributed burden of caring for the incompetent almost certainly drags more heavily on those who are stronger than would the potential competition which incompetency now holds in check—in such a civilization, the promise of gain to come from the eradication of feeble-mindedness, or insanity, or the proneness to consumption would outweigh any new stress of circumstance which it would involve. And with this alleviation of the miseries from within might come augmented economic efficiency, not of the few but of the many: a general and continuous advance in those characteristics of body and mind which make for man's larger control of heretofore reluctant gifts of nature.

If this sketching of the possibilities is even roughly true, it calls again for the verdict of the biologist. But it is by no means only the biologist whose judgment is required. Again and again, in the light of biological discoveries a more adequate answer must be sought to that crucial question, the significance of which the biologists have mostly failed to comprehend: Granted that by rational marriage selection certain recombinations of human characteristics can be effected at will, what eugenic policy promises the maximum increase of human welfare? To aid in answering this question the economist is needed. For health and strength and intellect work out the good or ill fortunes of their possessors according to the ways of economic civilization, and not by process of brute struggle for existence. Eugenics is not mere biology. The problems of eugenics are problems of human society.

X

THE PROBLEMS OF ECONOMIC INSECURITY

That "fortune is fickle," that "life is insecure," and that "no one knows what a day may bring forth," are among the oldest and the best attested generalizations from human experience. The problems associated with insufficiency of food, accident, sickness, and old age—with sowing where one never reaps—we have, quite proverbially, always had with us. But under modern industrial conditions, in a developing system, such questions are so closely related to the whole complex of life that it is necessary for us, collectively as well as individually, to "take thought for the morrow."

The machine system, production on a large scale, pecuniary competition, dependence on distant and future markets, the rapid development of technique, the delicate organization of the "industrial machine" and the scheme of prices, the currents which carry the shock of disturbance throughout the system, the alternation of business optimism and pessimism, the violent rhythm of the economic cycle, the onward sweep into an unknown future—all of these things prevent us from adequately guarding against what the morrow has in store. The insecurity of capital is attested by failures to find purchasers for goods, by falling dividends, by business failures, by the sudden disappearance of capital values. But these things were discussed in connection with the economic cycle. It is the insecurity of the laborer which concerns us here.

To grasp the problem as a whole we must appreciate the peculiar position of the laborer in the machine system. This can best come from contrasting, say, the villein on the manor with the modern industrial "hand." Custom granted to the former the use of the same land year after year, exacted from him a fixed rent, forbade his dispossession, and made his position permanent. He and the land formed an inseparable industrial unit: there was always something for him to work with; what he produced he had. The problem of want might indeed confront him; but it was associated with a raid of an alien feudal lord upon his manor or the failure of the elements to grant a full yield from the earth. The group to which he belonged was established upon a "personal" basis, and was possessed of a spirit of solidarity. He possessed as long as they possessed.

In modern industrial society, on the contrary, there is no permanent association of the laborer with the instruments of production. He secures equipment with which to work by means of a "contract," expressed in pecuniary terms, and running for a stipulated period. He owns no equities in the property with which he works. When the contrast expires, it need not be renewed. No other property owner is compelled to make a new contract with him. The bait of higher wages, drawing him from place to place, is likely to prevent his identification with a group animated by a spirit of solidarity. He has the tremendous advantages which come from freedom of movement and the chance to take advantage of the best opportunity which presents itself. He has the disadvantages which attend short-time contracts. These last are outgrowths of two sets of conditions; first, those affecting employment, causing it to increase or decrease, and to pay higher or lower wages; and second, his own industrial powers, which may be partially impaired or even totally collapse, from accident or sickness to which he is exposed. When they are gone, as they will eventually be in old age, he has no respectable surety of support.

This larger problem involves several minor problems, very closely connected, and yet possessed each of its peculiar aspects. Unemployment, perhaps the most difficult of these, is closely associated with the short-time contract. With changing business conditions, the employer, who is dependent upon pecuniary returns, may find it impossible to renew old contracts. Changes in technique, the disappearance of his market, and a thousand other causes may contribute to this result. It is rendered more serious by the ebb and flow in the demand for labor, which is closely associated with the rhythm of the business cycle. Unfortunately the supply of labor, unlike currency, is not possessed of the necessary elasticity to meet the changing conditions. The risks are too unpredictable for insurance to become more than a palliative. The solution of the larger problem is, in general, associated with that of the other problems of the cycle.

Industrial accidents occur because we have not yet learned absolutely to control the dangerous natural forces which we have pent up in our machines, and because we have not learned properly and exactly to adjust our movements to these huge engines of production—and destruction. In general their causes are resident in the system as a whole and cannot be directly imputed to "individuals." Unfortunately, however, their consequences may be quite concentrated. They are no respecters of persons, and are as likely as not to rob of their productive abilities laborers who have families dependent upon them. The problem involves: first, a prevention of industrial accidents, attended as they are with great losses of productive power; and second, the devising of some legal measure to compensate the injured and innocent party for his loss.

Sickness and old age are serious social problems. The former, through the absence of the laborer and the breaks in the productive process which his absence entails, piles up huge economic costs. Unless assistance be rendered at the time of stress, sickness may lead to a great loss of productive power and in many cases to permanent dependence. Provision for old age, under short-time labor contracts, is difficult and rarely is adequate. But, even if individually made, there is grave doubt whether the saving involved does not deplete the income to such an extent as seriously to cripple efficiency. At any rate the feeling of insecurity is likely to hinder the laborer's performance of his work. A scheme of insurance should be able greatly to reduce the wastes incident to both of these universal occurrences. What is needed is a long-time calculation, based on the whole life of the laborer, not a series of short-time calculations such as labor-contracts make necessary.

Finally there is the problem of insecurity due to wages too low to yield a decent standard of living. There is just now a disposition to try to solve this problem by the establishment of "minimum-wage scales." The problem is one of the most difficult in the field of economics. If the "natural," or competitive, wage is to be set aside as too low, what standard can be found to determine the proper wage? Will there not be evasion of laws prescribing "artificial" wages? To prevent this, will not the government be compelled to regulate prices, service, hiring and discharge, accounting systems, discipline, etc? Will not the experience of the government in attempting to prevent rebates be duplicated? What will be the influence of regulation on the investment of capital in the industries involved? To what lengths, and to the adoption of what new social schemes, will this policy carry us? Can the project be made to succeed without a supplementary control of the supply of labor? Would it not be better to try to solve the question through an attempt to decrease the numbers of the lower class, and through technical education? It seems, from the study which we made above of "artificial price determination," that prices seriously at variance with competitive prices cannot be enforced. Such an attempt would have far greater chances of success, if accompanied by efforts to restrict the supply or increase the efficiency of labor. A conscious "control of births," a restriction of immigration, vocational guidance, and compulsory technical training should do much

to make the minimum wage effective. If we can wait for slowly changing conditions to produce results, and if we do not force a single proposal to carry the whole burden of raising low wages, eventually we should expect success.

The problem of economic insecurity occurs in its most aggravating form among unskilled and unorganized laborers. State aid will help them; but it will not free them from the necessity of working out their own salvation. Skilled and organized laborers should be able to solve their own problem through their effective device of collective bargaining.

A. INSECURITY UNDER MODERN INDUSTRIALISM

254. Competition and Personal Insecurity[1]

BY THOMAS KIRKUP

Perhaps the most painful feature of the working man's lot is the insecurity of his position. During the long periods of depression work is scarce and precarious, and he must go where he has a chance of finding it. At all times the changes in the labor market are so great and unexpected that he can hardly calculate upon a settled existence. Continual fluctuations of trade force him to move. He has no control, or only a very partial control, over the economic and social conditions under which he must work. A settled home, a piece of land for a garden, a fixed outlook for his family, and a reasonable prospect of a happy and comfortable old age, untroubled by the horror of losing such savings as he may have made, through want of employment, and of ending his days in a workhouse—these for a large proportion of the workmen in the industrial centers are unattainable blessings. Yet they are unquestionably such as every decent and honorable working man has a right to expect.

This condition of insecurity under the existing system of competition, however, is by no means a special evil of the workman. It is the common lot of all who are involved in it, and, not the least, of the capitalists who are exposed to ruin by it. The conditions of industry are not only beyond the control of the workmen who serve under the capitalistic system. They are beyond the effective control also of the individual capitalists whose function it is to direct them, so that competition frequently degenerates into disorder, and into an exterminating war carried on with all the weapons permitted by the law, and with many not permitted by law—underselling, adulteration, fraud, bribery, oppression of labor. In times when industry is expanding, this may not be so apparent, but when trade becomes dull, stationary, or retrograde, the struggle grows painful, and to many of the competitors disastrous. In this struggle many

[1]Adapted from *An Inquiry into Socialism*, 68–74. Copyright by Longmans, Green & Co. (1907).

capitalists are ruined, dragging down with them numbers of workmen who have no control of their economic position, and are helpless under the calamity.

This insecurity is essentially connected with the speculative character of the competitive business. As production is so often carried on for a market of unknown and incalculable extent, and for prices which, even if obtained, cannot be accurately foreseen, uncertainty must very greatly prevail, and the speculative spirit must powerfully affect the general course of business. This spirit of speculation culminates in the great Exchanges, disturbs legitimate trade, and not infrequently throws into insecurity, panic, and disorder the industrial operations of the country, sometimes of the civilized world.

In the history of the capitalistic system nothing is so extraordinary as the rapid development of mechanical power. It is only natural, when the prizes of success are so enormous and the penalties of failure so severe, that human ingenuity and energy should be wonderfully quickened. This development of industrial power still continues in every country where modern methods have been introduced. But there is a serious evil connected with it. This is the fact that labor, which is one of the greatest factors of production, is thrown out of employment through this excessive development of machinery. But as the laborers form the bulk of the population and should be by far the largest purchasers, the very force which tends to over-fill the markets tends also to restrict the purchasing power of the majority of the community. Thus industry under the competitive system runs and must run in a vicious circle.

All the phenomena of competitive anarchy find their worst development in the great commercial and industrial crises which continually recur, and now threaten to become not only universal but chronic. It is unnecessary to recount the familiar phenomena of an industrial crisis. We have a multitude of competing capitalists of every class with a market which may be as wide as the world. Each has a vague prospect of vast possibilities of gain before him, and when trade is favorable each is anxious to make the most of his opportunities. Machinery is improved, establishments are enlarged, and better organized, production grows lively, vigorous, and rapid in an ever increasing ratio till it becomes an impetuous and feverish rush. Before long the over-filled markets are unable to take off the enormous supply. Goods will not sell. Embarrassments set in, followed by forced sales at any price. Inflation and over-confidence give place to insecurity and panic. Then comes the crash resulting in ruin to thousands of capitalists and in widespread depression and stagnation. Hundreds of thousands of workmen are thrown

out of employment. All the classes that depend on the operations of capital, that is to say the entire society, suffer more or less from the prevailing depression. And we have the fearful spectacle of starving multitudes in the midst of overflowing markets and storehouses; superabundant food and clothing and all the other means of subsistence, comfort and culture, but inaccessible even to those who are most anxious to work; vast numbers of men ruined through the very effectiveness and perfection of the productive forces which they have themselves created. The workers starve because they have produced too much and too well; through the action of mechanical forces which have been created, but are not duly controlled by man.

So long as these productive forces are wielded in such a chaotic way by private capitalists competing for a world market, without adequate knowledge of its needs, without arrangement with each other, without system and prevision, so long must such disorder last. The capitalist, too, suffers fearfully, but it is the workman that must usually bear the heaviest burden of privation and wretchedness.

255. Machinery and the Demand for Labor[2]

BY JOHN A. HOBSON

The motive which induces capitalist employers to introduce into an industry machinery which shall either save labor, by doing the work which labor did before, or assist labor by making it more efficient, is a desire to reduce the expense of production. A new machine either displaces an old machine, or it undertakes a process of industry formerly done by hand labor without machinery.

When a new process is first taken over by machinery the expenses of making and working the machines, as compared with the expenses of turning out a given product by hand labor, will involve a net diminution of employment. Proof of this is the introduction of the new machinery; otherwise no economy would be effected. Neither in economic theory nor in industrial practice is there any justification for the belief that the net result of improved machinery is a maintenance or an increase of employment within the particular trade, or even within the group of the interdependent trades engaged in producing or supplying a class of commodities. Still less support is there for this belief as applied to the trade of a particular locality or national area. While the introduction of new

[2]Adapted from *The Evolution of Modern Capitalism*, new and revised edition, 317–334. Published by Charles Scribner's Sons (1906).

labor-saving machinery in type-setting and printing has been followed by so large an expansion of business as to employ increased numbers of workers, recent improvements in most British textile mills, cotton, woolen, hemp mills, have been followed by an absolute reduction of employment. Statistics point to the conclusion that the further a nation advances in the application of labor-saving machinery to the production of goods which satisfy the primary needs of the population, the smaller the proportion of the total employed class engaged in these productive processes. The best available statistics indicate that the proportion of employment afforded by the staple manufacturers as a whole diminishes after modern machine methods are well established, and that the tendency is strongest in those manufacturers engaged in supplying ordinary classes of textile, metal, and other goods in the home markets.

In order to judge the net effect of labor-saving machinery upon the volume of employment, a wider view is necessary. If the first effect is to cheapen goods, we need not look to the expansion of demand for this class of goods to absorb the labor which it is the object of the machine to displace. We must look to the expansion of demand for other sorts of goods due to the application of the elements of income saved by the fall of prices in the first class of goods. For instance, if cotton goods are cheaper owing to improved methods of production, the chief result may be to increase the demand for furniture.

This wider outlook enables us to conclude that though the effect of machinery may be a reduction of employment in a special trade or group of trades, the general result must be to maintain the same aggregate volume of employment as before, provided the income liberated from a particular demand is applied to other demands for commodities. If, as may be objected, there is a simultaneous tendency to reduce the prices of most articles of ordinary consumption, by applying machine methods of production, the normal result would be to stimulate new wants, and so to create new channels of production yielding employment to displaced labor. That this is the fact in the world of industry no one can seriously doubt.

If the improvements of machine-methods were regular, gradual, and continuous in the several industries, no considerable effect in reducing the volume of employment would occur. But where industrial improvements are sudden, irregular, and incalculable, natural adjustment is not possible. It is this irregular action which has proved so injurious to large bodies of laborers whose employment is subjected to a sudden and large shrinkage. From time to

time great numbers of skilled workers find the value of their personal skill cancelled, and are driven either to acquire a new skill or to compete in the unskilled market. Yet history certainly shows that the fuller application of great inventions has been slow, allowing ample time for adjustment. In most cases where distress has been caused, the directly operative influence has not been introduction of machinery, but sudden change of fashion. The suddenly executed freaks of protective tariffs have also been a source of disturbance. So far as the displacement has been due to machinery sufficient warning has been given to check the further flow of labor into such industries and to divert it into other businesses. Moreover the changes which are taking place in certain machine industries favor the increasing adaptability of labor. Many machine processes are either common to many industries, or are so narrowly distinguished that a fairly intelligent workman accustomed to one can soon learn another.

Whether machinery, apart from the changes due to its introduction, favors regularity or irregularity of employment, is a question to which a tolerably definite answer can be given. When the employer has charge of enormous quantities of fixed capital, his individual interest is strongly in favor of full and regular employment of labor. On the other hand great fluctuations in price occur in those commodities which require for their production a large proportion of fixed capital. These fluctuations in prices are accompanied by corresponding fluctuations in wages and irregularity of employment. Why this contradiction? It is that in the several units of machine-production we have admirable order and adjustment of parts. In the aggregate of machine production we have less organization and more speculation. Industry has not yet adapted itself to the changes in the environment produced by machinery. That is all. Modern machinery has enormously expanded the size of markets, the scale of competition, the complexity of demand, and production is no longer for a small, local, present demand, but for a large, world, future demand. Hence machinery is the direct cause of the fluctuations which bring irregularity of employment.

But there is another force which makes for an increase of speculative production. It has been seen that the proportion of the workers engaged in producing comforts and luxuries is growing, while the proportion of those producing the prime necessities of life is declining. Hence the effect of machinery is to drive ever and ever larger numbers of workers from the less to the more unsteady employments. Moreover, there is a marked tendency for the demand for luxuries to become more irregular and less amenable to

calculation, and a corresponding irregularity is imposed upon the trades producing them. This is true of many season and fashion trades. The irregularity of these trades prevents them from reaping the full advantages of the economies of machinery. A larger proportion of town workers is constantly passing into trades in which changes in taste and fashion are largely operative.

Thus there are three modes in which modern capitalist methods of production cause temporary employment:

1. Continual increments of labor-saving machinery displace laborers, compelling them to remain unemployed until they have adapted themselves to the new situation.

2. Miscalculation, to which machine-industries with a wide unstable market are particularly prone, bring about periodic depressions of trade, throwing out of employment large bodies of workers.

3. Economies of machine production drive an increasing proportion of laborers into trades supplying commodities, the demand for which is more irregular, and in which the fluctuation in the demand for labor must be greater.

256. Economic Insecurity and Insurance[3]

BY WILLIAM F. WILLOUGHBY

In a broad sense all forms of insurance may be described as social insurance, since social ends are attained by them. As the term is now employed, however, it is usually restricted to those forms of insurance having to do with contingencies affecting individuals as opposed to those affecting property. It looks to the conferring of pecuniary benefits in all those cases where for any reason the capacity of the individual to provide for the support of himself and those dependent upon him is lessened or destroyed. Stated in another way, social insurance sets to itself the task of meeting the problem of the economic insecurity of labor.

Now what are the contingencies causing this economic insecurity against which provision must be made in some way? On examination we find that a man's ability to support himself, and to make due provision for those dependent upon him, is lessened or cut off: (1) by his meeting with an accident incapacitating him, temporarily or permanently, partially or completely, from labor; (2) by his falling sick; (3) by his becoming permanently disabled for labor

[3]Adapted from "The Problem of Social Insurance: An Analysis," in the *American Labor Legislation Review,* III, 159–160 (1913).

as the result of old age or failing powers; (4) by his death, leaving a widow, children, or others without adequate means for their support; and (5) by his inability to secure remunerative work.

To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) Insurance against accidents; (2) insurance against sickness; (3) insurance against old age and invalidity; (4) insurance against death, or, as it is more usually called, life insurance; and (5) insurance against unemployment.

Could a just and workable plan of insurance covering these several points be worked out, the problem of the economic security of labor, one of the greatest with which society now has to deal, would be solved. Is there any social problem more fundamental or more deserving of unremitting effort?

Our first analysis thus resolves the problem of social insurance into these five branches. This division is made not merely in order to bring out the content or orbit of social insurance. It is fundamental, since each of these branches of insurance has its own special features and problems. Insurance, notwithstanding the simplicity of the ideas underlying it as a device, is an exceedingly technical science. Particularly is this true where the human factor has to be dealt with. Still more is it complicated where a departure is contemplated from the system of purely voluntary, unencouraged, unaided use of the device on the part of individuals, and resort is proposed to the force of social encouragement, control and compulsion. Each of these five branches of social insurance thus has its own special problems and considerations; they are united only in respect to their ultimate social end.

These special problems can, in each case, be distinguished, for purposes of consideration, into three distinct classes: (a) the social, (b) the administrative, and (c) the technical. Of these the first is the most fundamental. Under this head falls the great question of upon whom shall fall the burden of making the contributions required for the support of the system. No real progress can be made until we, the public, have reached a conclusion regarding the problem of justice that is here involved. As a matter purely of right, of justice, of bringing about the widest possible distribution of welfare, how shall the financial burden entailed by the system be distributed? In seeking to reach an answer to this question we find that the choice lies between placing the burden in whole or in part upon either: (1) the beneficiary, or workman, (2) the employer, (3) the industry in which the workman is employed, or (4) the state.

B. UNEMPLOYMENT

257. Character and Types of Unemployment[4]

BY W. H. BEVERIDGE

To grasp the problem of unemployment and free ourselves from popular but erroneous notions on the subject, we must first get a clear impression of the nature of the industrial system.

The popular conception is of industry as rigidly limited—a sphere of cast iron in which men struggle for living room; in which the greater the room taken by any one man the less must there be for others; in which the greater the number of men the worse must be the case for all. The true conception is a sphere made of elastic material, capable of expansion and being in fact continually forced to expand by the struggling of those within. Each individual appears to be and, no doubt, to some extent is, pressing upon the room of his neighbors; the whole mass presses upward upon the limits within which it is for the moment confined; the result of a particularly violent struggle of one man for the room of others may be to enlarge appreciably the room for all.

This expansion of industry cannot readily be made visible, and is nowhere recorded in direct and comprehensive figures. It is and must always remain something of a mystery. It does not take place evenly. It is perhaps not a thing to be counted on forever. The sphere may at last lose its elasticity and cease to respond further to the increasing pressure from within. That, if it ever happens, will mean over-population, a diminishing return to labor, a falling standard of life, and, unless the growth of numbers be arrested, a gradual but certain return to barbarism for the immense majority of people. For the present it is sufficient to say that the time has not come; it is not within sight; it can barely be imagined. For the present the sphere of industry retains its elasticity. It expands, not indeed steadily, but still sufficiently for the people. It absorbs the generations as they come. It yields each fresh man on the whole more living and working room than fell to the lot of those who went before.

Yet with all this comes the perpetual cry of some who find no living and working room at all. The number of the unemployed never falls to zero. Many who recognize the indisputable facts of the expansion of industry and the rising standard of life are prone to deny directly or implicitly the existence of an unemployment

[4]Adapted from *Unemployment: A Problem of Industry*, 11–14. Published by Longmans, Green & Co. (1908).

problem at all. If there are not too many workmen in a country, every man who wants work must be able to obtain it. If any man fails to find room while all around him fresh room is opening up, he must be either unfit or unwilling to do so. He must be "unemployable," incompetent, lazy, sick, or infirm.

Yet unemployment is not to be explained away as the idleness of the unemployable. As little can it be treated as a collection of accidents to individual working people or individual firms. It is too widespread and too enduring for that. While the final absorption of the growing population in the growing industry is accepted as being for the country still happily the rule, it is no less necessary to admit the existence of facts modifying the completeness of this absorption at certain times and places—indeed, at all times and places. There is no general want of adjustment between the increase of the people and the expansion of industry, between the rate of supply of fresh labor and the normal growth of the demand for it. There are specific imperfections of adjustment which are the causes of unemployment.

One of these has long been recognized. While industry, as a whole, grows, specific trades may decay, or change in methods and organization. The men who have learned to live by those trades may find their peculiar and hard-won skill a drug on the market and themselves permanently displaced from their chosen occupations, while lacking both the youth and the knowledge to make their way in new occupations.

A second type of maladjustment between the demand for and the supply of labor is found in actual fluctuations in industrial activity. Many trades, perhaps most trades, pass regularly each year through an alternation of busy and slack seasons, determined by climate or social habits, or a combination of both. Building is slack in winter and busy in spring and summer. Printers find least to do in the August holidays and most in the season just before Christmas.

Behind and apart from these seasonal vicissitudes of special trades, and affecting, though in various degrees, nearly all trades at about the same time, is a cyclical fluctuation in which periods of general depression alternate at regular intervals with periods of feverish activity. At such times of depression the industrial system does appear to suffer a temporary loss of elasticity; it fails for a while to keep pace with the steady growth of population; it gives—in a phase of falling wages and lowered standards—an object lesson of what might be expected if the supply of labor should ever come permanently to outstrip the demand.

These two elements in the problem of unemployment have long been familiar. A third, apparently far more important than either of the occasional transformations of industrial structure or the periodic fluctuations of industrial activity, is only just beginning to receive attention. This is the requirement in each trade of reserves of labor to meet the fluctuations of work incidental even to years of prosperity. The men forming these reserves are constantly passing in and out of employment. They tend, moreover, to be always more numerous than can find employment together at any one time. This tendency springs directly from one of the fundamental facts of industry—the dissipation of the demand for labor in each trade between many separate employers and centers of employment. Its result may be described as the normal glutting of the labor market. The counterpart of such glutting is the idleness at every moment of some or others of those engaged.

The three factors just mentioned—changes of industrial structure, fluctuations of industrial activity, and the reserve of labor represent, not indeed all, but at least the principal economic factors in unemployment.

258. Wanted: A Labor Exchange[5]

BY GREGORY MASON

Mankind has been job hunting since the fall from grace in Eden. Even in normal times, say statisticians, from 3 to 10 per cent of the laboring population is out of work. In periods of depression the percentage is much larger. None but the wildest theorists think all unemployment will be done away with this side of the millennium, but more and more people are coming to feel that the number of jobless men and women in the United States can be greatly reduced by the injection of a little system into the situation. This feeling is justified by the fact that no matter how hard times may be there is always a number of jobs waiting to be filled.

At present in this country men and women find jobs through four mediums: newspapers, private employment agencies, charitable organizations, and undirected search. None of these mediums is satisfactory because none of them is broad enough to be in touch with the whole demand and the whole supply. A commission reported not long ago that "a surprising amount of unemployment within our

[5]Adapted from "The Jobless Man and the State," in *Harper's Weekly*, March 28, 1914. Copyright.

own state, over the country as a whole, and even in one city, is due to mere failure of the demand for labor and the supply to connect up."

In other words, a good deal of unemployment in the United States is due to the absence in most states of a centralized labor market. Labor is as much a commodity as cotton, steel, or oil, and these commodities all have their central markets. When a man wants to buy cotton he goes to a cotton exchange. No one ever saw advertised "cotton wanted" or "oil wanted," yet the "help wanted" sign is in a thousand windows in the country, a symbol of inefficiency and waste.

Sixty years ago the Germans, whose social instinct is deeper than ours, decided that the bringing together of work and workers was a proper function of the state. Then was begun a great system of public labor exchanges which now fills annually more than a million jobs and makes the lot of the jobless man easier in Germany than in any other country.

Ohio in 1890 was the first American state to follow the lead of the Germans. Employment offices were opened in five large cities in the state. The experiment was a success, and other states began to try it, timidly at first, but more boldly and in increasing numbers during the last decade, until there are now nineteen states with sixty-one public employment bureaus in the United States.

These state labor bureaus charge no fee for their services, allot jobs impartially—usually distributing them in the order in which applications are made—and undertake not to give work to anyone, but merely to introduce laborers looking for work to employers looking for labor. They have won the approval of trade unions by maintaining a neutral attitude in strikes. Their most important function consists in regulating the distribution of labor over an entire state. Where the outlook of a private employment bureau is local, a state bureau has a bird's-eye view of the entire state and beyond. For instance, in Wisconsin, where the system is more highly developed than elsewhere, a working man can tell by a glance at the monthly labor bulletin whether the demand for lumberjacks exceeds that for farm hands and in what part of the state the lumberjack demand is the strongest. As soon as a man is out of work he goes to one of the state employment agencies and learns in what locality he is most likely to find a purchaser for his labor.

In America we need a system of free public labor exchanges in every state as well conducted as those in Wisconsin, and co-ordinated by a central bureau at Washington. The latter is needed because unemployment is essentially a national question, and the

power of the state in directing the stream of labor stops at the state boundaries. Such a central labor office, keeping an all-embracing eye on the labor market in America and moving the supply of labor from one state to meet the demand in another has been advocated by the labor commissioners of a number of states which already supply free labor brokerage to their inhabitants.

It would be the task of such a central bureau to keep labor evenly distributed, removing the usual surplus from large cities to the labor-hungry districts of the country. Such a central bureau could also minimize the evil effects of seasonal employment, for example, by shifting the labor that is left idle in agricultural states after the harvest to localities where there is ice or timber to be cut or other winter work to be done.

Surely it is not revolutionary to propose that a government that dispenses to its citizens information on subjects ranging from crops to first-aid-to-the-injured should take a hand in bringing together the man and job.

259. Cyclical Distribution of Government Orders[6]

BY SIDNEY AND BEATRICE WEBB

Without securing an approximate uniformity, one year with another, in the aggregate demand for labor in the community as a whole, it is clear that unemployment on a large scale cannot be prevented. The only possible way in which that uniformity can be secured is the use of the government orders as a counterpoise to the uncontrollable fluctuations in the other orders. If this involved the stopping of all government orders in good years and doing all the government work in bad years, the proposal would be an impracticable one, because the government business must go on continuously, whatever the state of the labor market. But if the desired result can be achieved by rearranging, within the decade, no more than 3 or 4, or even 6 or 8 per cent of the work that would otherwise have been done evenly year by year. It is impossible to believe that so relatively small a readjustment is not possible.

It may be asked how this policy differs from that of relief works now so universally condemned. In reality the two policies are poles asunder. What gives to relief works their evil character, whether or not they are of any real public utility, and whatever rate of wages

[6]Adapted from *The Prevention of Destitution,* 114–118. Published by Longmans, Green & Co. (1911).

is paid, is that the men employed are taken on because they are unemployed. Accordingly, relief works are of the nature of relief, not prevention. They do not prevent the occurrence of unemployment; they do not prevent that breach of continuity in the workman's industrial life which is so harmful to him. They merely come in, by way of succour, after the breach of continuity has occurred. And by having to take on only those men who have already been thrown out of work, and taking them on because they have been thrown out of work, the managers of relief works find themselves necessarily saddled with a heterogeneous crowd of workmen, who are not individually picked out for employment because their specific services are required, in exactly due proportions to each other; but are taken *en bloc,* whatever their several qualifications and antecedents, just because they happen, at that particular time and place, to be together unemployed. Now it is characteristic of any enterprise of remunerative character that it involves a high degree of organization, division of labor, the employment of the various grades and kinds of workers required in a certain exact proportion one to another, and so on. The result is not being able, on relief work, to pick exactly the men having the skill and antecedents that are required, and of having, instead, to take on a heterogeneous crowd, is that no industrial enterprise of any highly organized character can possibly be undertaken, and the work accordingly can hardly ever be remunerative, or form part of normal productive industry.

But it is not so much in the extravagant cost, or in the wastefulness, or in the lack of real utility that the evil of relief work lies. It is in their bad effect upon the character of the men whom they are intended to succor. The taking on of the heterogeneous crowd, not to work each of them at his own trade, for his own standard rate, but to labor at some common occupation that can simultaneously find employment for them all; which is known to have been undertaken merely to give them employment, from which they cannot practically be dismissed; and where they receive wages at a rate arbitrarily fixed, to a view of what they can live on rather than to the market rate for any particular kind of labor, inevitably has an adverse psychological reaction on the men themselves and on the foremen over them.

Now contrast this with the proposal to give to the government orders for works and services unevenly, and more in the lean years,

rather than evenly year by year. The mere fact that, on the index number of unemployment beginning to rise, the government puts in hand slightly more building work than would otherwise have been the case, orders rather more printing, somewhat increases its shipbuilding, raises this year the amount of its orders for blankets and sail-cloth above the normal, and temporarily accelerates the rate at which the telegraph wires are being laid underground, and the telephone is being extended to every village, would not mean the taking on of any crowd of unemployed workmen anywhere.

What it would mean, in the first place, would be that various building firms and printing establishments all over the country would find themselves relieved from the necessity of turning off men; some shipbuilding yards would be able to abstain from the necessity of reducing hands; the mills producing blankets and sail-cloth would not need to go on short time; and the contractors for telegraph and telephone extensions would find themselves continuing in employment, and placing on the government work members of their staffs whom they would otherwise have had to dismiss. All this prevention of discontinuity in the employment and wages of tens of thousands of workmen all over the country, and, for that matter, also in the profits of hundreds of employers, would automatically result in preventing much other discontinuity elsewhere. Even the gramophone makers might find themselves continuously, instead of intermittently, employed!

And where employers, by reason of the enlarged government orders, had actually to engage additional men they would do so, not with a view of "employing the unemployed," not even of confining themselves to the men who were at the moment actually out of situations, but deliberately, in order to attract to their service, it might be from some other employer's service, exactly the kinds and grades of workmen, individually selected on their merits, as being the most skilful and the most regular workmen who could then and there be found, in exactly the due proportion one to another that the expansion of the particular business required.

There would in this way be no adverse psychological effect on the workmen, any more than on the foreman who selected them and supervised their efforts or in the employer who saw to it that the normal discipline of his establishment was maintained. Instead it would not even occur to any of them that there was anything "artificial" or abnormal in the government order for sail-cloth or other commodities.

260. Insurance against Unemployment[7]

BY W. H. BEVERIDGE

There is needed some definite provision against the incalculable varieties of individual misfortune which attend the cyclical fluctuations in most trades. This is to be sought in some form of insurance against unemployment.

The term "insurance" in this connection cannot be used as a term of art. It must be taken to apply loosely to any process whereby each of a number of workmen sets aside something of his wages while earning to obtain an allowance in case of unemployment. It need not be taken as excluding the possibility of grants to the insurance fund from other sources. Its essence is for the individual workman an average of earnings between good and bad times, and for the body of workmen a sharing of the risk to which they are all alike exposed.

In this looser sense insurance is already one of the most important methods of dealing with unemployment. It is found in the form of benefits paid by many trade unions to their unemployed members. These benefits are of two principal types—the stationary or unemployed benefit, strictly so called, and the allowance given to assist traveling in search of work.

In practice the benefits vary greatly from union to union, both in amount and in duration. Their range is from 6 shillings a week for four weeks in fifty-two to 14 shillings a week for twenty, and even for thirty weeks, in the calendar year. The conditions under which benefits are granted present the widest variety.

The system of trade union benefits probably does more than any existing agency to provide against distress through want of employment. It does it without injury to self-respect and at a cost which in comparison with the effect produced is extremely small. It has the outstanding merit of flexibility. By substituting collective for individual savings it shifts on to each trade, as a whole, part of the burden of the necessary margin of idleness.

The effectiveness of the system is to be judged by the fact that members of the unions paying any substantial unemployed benefit are hardly ever applicants for public charity. The allowance given is not, in itself, adequate. It has to get supplemented, and does get supplemented, by the earnings of wife and children, by assistance

[7]Adapted from *Unemployment: A Problem of Industry*, 223–227. Published by Longmans, Green & Co. (1908).

from fellow workmen and neighbors, by running into debt, by pawning, and in other ways. It serves, however, as a nucleus. It keeps the rent paid. In practice it prolongs almost indefinitely the resisting power of the unemployed.

The method of insurance is flexible, as no provision for relief by employment can be flexible. No temporary or accidental stoppage is too small for it. The machinery of assistance is always ready; so soon as a man becomes unemployed, from whatever cause, he has only to begin signing the vacant book in order to become entitled to an allowance. On the other hand, the severest depression of trade is hardly too great to be dealt with in this way. The relief once begun can be and practically is continued for the great bulk of men so long as proves necessary.

The method of insurance throws upon each trade as a whole the burden or part of the burden of its margin of idleness. Unionism substitutes the collective for the individual consciousness, and thus enables the risk of unemployment in all its forms to be appreciated as a normal incident of industry. The individual finds the risk very hard to appreciate and still harder to provide against. He may expect and allow for occasional loss of earnings through bad weather or ill luck or in passing from one job to the next. He may expect and allow for seasonal fluctuation. Cyclical fluctuation stands practically on a different footing. It comes at far greater and less regular intervals; it lasts, not for weeks, but for months or years. Moreover, it tends to strike always the older or weaker members of a trade. In the strength of his youth a man may pass unscathed through two or three depressions, to be thrown out by the next when he is forty years old or more.

In the life of the individual excessive depression appears often as a unique disaster. In the life of a great organization, exceptional depression is but the downward phase of cyclical fluctuation—a phenomenon impressive and familiar, writ large in the records of recurrent increase of the unemployed percentage, recurrent pressure on the funds, recurrent decline or stagnation of membership. For such an organization the proviso of unemployed benefits becomes provision against an absolutely certain danger. Appreciation of this certainty reacts on wages. To keep its members together, the union helps them when unemployed; it must therefore hold out for wages sufficient to cover the heavier subscriptions involved. In the shape of these higher wages it transfers to the trade as a whole the burden or part of the burden of unemployment.

Unfortunately the application of the system is at present very limited. Even a very large number of trade unions have no effective provisions against unemployment. Outside the trade unions insurance is unknown.

261. An Appraisal of Unemployment Insurance[8]

BY WILLIAM F. WILLOUGHBY

The experiments that have been made in Switzerland and elsewhere, while they are not sufficiently extensive to furnish conclusive evidence regarding the practicability of insurance against unemployment, are fully adequate to bring out the chief considerations that must be taken into account in any attempt to organize such a system.

An examination of the nature of the problem of unemployment shows that insurance principles are ill suited for its solution. Insurance presupposes that the risk involved shall possess two characteristics,—it must be well defined, and it must be the consequence of a chance that can be estimated with some degree of certainty. The risk of unemployment conforms to neither of these conditions. It is not well defined, since there is no fixed criterion as to what work the unemployed should be required to accept. It does not depend upon calculable chance, because the personal element involved in seeking and retaining work, to say nothing of the uncertainty of the employer's action, enters so largely. Though lack of employment is often unavoidable on the part of the workingman, the latter's will and energy play such an important part in the matter that any attempt to distinguish unavoidable idleness is futile. Insurance concerns itself with a risk that can be calculated and provided for in advance; but this cannot be done in regard to lack of employment.

In no case where tried, has the attempt been made to calculate risks and to adjust contributions accordingly, or indeed to make the system self-supporting. Only nominal contributions have been required from members, while the great burden of expense has been borne by the government and by voluntary contributors. In reality, therefore, it is scarcely proper to speak of these institutions as insurance organizations. What has been created is really a more methodical system of granting relief to the unemployed.

The problem of lack of employment in the factory trades is quite different from that in the building trades or among ordinary

[8]Adapted from *Workingmen's Insurance,* 375–378. Copyright by T. Y. Crowell & Co. (1898).

day laborers. It may be confidently stated that any attempt to introduce even a modified form of insurance against unemployment should follow strictly trade lines.

This, however, brings us to the consideration of the out-of-work benefit features of labor organizations. If unemployment insurance should follow trade lines, every argument would seem to indicate that such efforts should be made through existing organizations of workingmen. The great work done by these organizations in the way of aiding their members is well known. In the United States a large part of the expenditures of the trade unions likewise go for this purpose, though it is not possible to make any exact statement of the amount. This method of granting relief possesses manifest advantages. The work of unions is not charity but the highest order of mutual aid. Labor unions, moreover, are in a peculiarly favorable position to assist their members in obtaining work, and are able to guard themselves against imposition. Finally, as we have seen, unemployment is not a condition beyond the control of individuals, and does not happen with a regularity that can be calculated. Insurance proper affords little room for discretion in granting relief, while each case of unemployment should be considered upon its particular merits. Labor organizations can exercise this necessary discretion in a way that is utterly beyond the power of a municipal institution.

The logical conclusion is that in America, at least, provision against lack of employment can best be made for the established trades by the men themselves through their organizations; and that this provision cannot be made according to hard and fast insurance principles, but must allow for a certain elasticity or discretion in the granting of relief, according to the circumstances of each case and the amount of funds available for this purpose.

C. INDUSTRIAL ACCIDENT

262. The Machine Process and Industrial Accident[9]

BY E. H. DOWNEY

Work accidents in the United States, according to the best attainable estimates, annually cause more than 35,000 deaths and about 2,000,000 injuries, whereof probably 500,000 produce disability lasting more than one week. To employ a telling comparison frequently made, the industrial casualties of a single year in this country alone

[9]Adapted from *History of Work Accident Indemnity in Iowa*, 1–5. Published by the State Historical Society of Iowa (1912).

equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the "Titanic." This single spectacular catastrophe appalled the civilized world and compelled governmental action in two hemispheres; while the ceaseless, day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.

The point especially to be emphasized in this connection is that the appalling waste of life revealed by the above cited estimates is, in great part, unavoidable. Doubtless the number of work accidents may be considerably reduced in the United States, as it has been reduced in Europe, by preventive measures. Yet when all possible precautions have been taken modern industry will continue to exact a fearful toll of life and limb. Even in the German Empire, which leads the world in accident prevention, there were reported in 1911, the last year for which statistics are available, 662,321 work accidents, whereof 9,687 terminated fatally and 142,965 caused disability for more than thirteen weeks. Scientific accident prevention in Germany has produced a lower accident rate and a much lower rate of fatal accidents than obtains in the United States, but it has left the total casualty list of industry deplorably large. Indeed, the number of work injuries in Germany, as elsewhere, is increasing, both absolutely and relatively to the numbers employed, as industrial development goes forward. The ugly fact is that work accidents, in the main, are due to causes inherent in mechanical industry on the one hand, and in the hereditary traits of human character on the other hand.

In the first place, a high degree of hazard inheres in present-day methods of production. Modern technology makes use of the most subtle and resistless forces of nature—forces whose powers of destruction when they escape control are fully commensurate with their beneficent potency when kept in command. Moreover, these forces operate not the simple hand tools of other days, but a maze of complicated machinery which the individual workman can neither comprehend nor control, but to the movements of which his own motions must closely conform in rate, range, and direction. Nor is the worker's danger confined to the task in which he is himself engaged, nor to the appliances within his vision. A multitude of separate operations are combined into one comprehensive mechanical

process, the successful consummation of which requires the co-operation of thousands of operatives and of countless pieces of apparatus in such close interdependence that a hidden defect of even a minor part, or a momentary lapse of memory or of attention by a single individual may imperil the lives of hundreds. A tower man misinterprets an order, or a brittle rail gives way, and a train loaded with human freight dashes to destruction. A miner tamps his "shot" with slack and dust explosion wipes out a score of lives. A steel beam yields to a pressure that it was calculated to bear and a rising skyscraper collapses in consequence, burying a small army of workmen in the ruins.

In the second place, human nature, inherited from generations that knew not the machine, is imperfectly fitted for the strain put upon it by mechanical industry. Safely to perform their work the operatives of a modern mill, mine, or railway should think consistently in terms of those mechanical laws to which alone present-day industrial processes are amenable. They should respond automatically to the most varied mechanical exigencies, and should be as insensible to fatigue and as unvarying in behavior as the machines they operate.

Manifestly these are qualities which normal human beings do not possess in anything like the requisite degree. The common man is neither an automaton nor an animated slide-rule. His movements fall into a natural rhythm, indeed, but the beat is both less rapid and more irregular than the rhythm of most machines—with the consequence that he fails to remove his hand before the die descends or allows himself to be struck by the recoiling lever. It requires an appreciable time for the red light or the warning gong to penetrate his consciousness, and his response is apt to be tardy or in the wrong direction. Fatigue, also, overcomes him, slowing his movements, lengthening his reaction time, and diminishing his muscular accuracy —thereby trebly enhancing his liability to accident.

The machine technology, in fact, covers so small a fraction of the life history of mankind that its discipline has not yet produced a mechanically standardized race, even in those communities and classes that are industrially most advanced. And so there is a great number of work injuries due to the "negligence of the injured workman"—due, that is to say, to the shortcomings of human nature as measured by the standards of the mechanician. This maladjustment is aggravated by the never-ceasing extension of machine methods to new fields of industry, and the continued influx of children, women, and untrained peasants into mechanical employments. Ac-

cordingly, the proportion of accidents attributable to want of knowledge, skill, strength, or care on the part of operatives appears everywhere to be increasing.

There is, then, no prospect that the "carnage of peace" will be terminated, as the carnage of war may be, within the predictable future. An industrial community must face the patent fact that work injuries on a tremendous scale are a permanent feature of modern life. Every mechanical employment has a predictable hazard; of a thousand men who climb to dizzy heights in erecting steel structures a certain number will fall to death, and of a thousand girls who feed metal strips into stamping machines a certain number will have their fingers crushed. So regularly do such injuries occur that every machine-made commodity may be said to have a definite cost in human blood and tears—a life for so many tons of coal, a lacerated hand for so many laundered shirts.

263. Imputation of Responsibility for Accidents[10]

a) Safety First

Employees, before they attempt to make couplings or to uncouple, will examine and see that the cars or engines to be coupled or uncoupled, couplers, drawheads, and other appliances connected therewith, ties, rails, tracks, and roadbeds, are in good safe condition. They must exercise great care in coupling and uncoupling cars. In all cases sufficient time must be taken to avoid accident or personal injury.

b) Efficiency First

Entirely too much time is being lost, especially on local trains, due to train and enginemen not taking advantage of conditions in order to gain time doing work, switching and unloading and loading freight. Neither must you wait until train stops to get men in position. It is also of the utmost importance that enginemen be alive, prompt to take signals, and make quick moves. In this respect it is only necessary to call your attention to the old adage, which is a true one, that when train or enginemen do not make good on local trains it thoroughly demonstrates those men are detrimental

[10]The first of the two selections given here is an excerpt from an official bulletin of a railway company; the second is an excerpt from a letter of instruction to employees issued by the same company. The first suggests that there may be truth in the frequently repeated statement that "the most effective way for railroad employees to practice sabotage is to live up to the rules of the company."

to the service as well as their own personal interests, and such men, instead of being assigned to other runs, should be dispensed with. I am calling your attention to these matters with a view of invigorating energy and ambition, in order that your families who are dependent on you to make a success shall not some day point the finger of scorn at you, and that the public may not be able to say you lost your position due to lack of energy and interest in your own personal welfare, for which you can consistently place the responsibility on no one but yourself.

264. Industrial Accidents and the Theory of Negligence[11]

BY LEE K. FRANKEL AND MILES M. DAWSON

Let us consider the principles which, only a quarter century ago, determined the right of a workman to recover compensation from his employer. Those principles still apply, with some modification, in all the states of the United States, and have but recently been discarded in part by the federal government itself. The elementary theory of "the law of negligence," as it is usually called, in its relation to the liability of employers for financial loss to workmen and their families, was originally the same in all civilized countries. The development of the law of liability has not been identical in every country, but nowhere, probably, has the principle been pushed so far as in the United States. The doctrine has, however, been modified somewhat by decisions of the courts and by act of our legislatures.

The underlying principle of the law of negligence is that *the employer is liable only in case he is at fault;* that is, *he must have been neglectful in some respect and this negligence must have been the proximate and sole cause of the accident.* In that case it declares that he alone must bear the financial burden of compensation.

Liability of the employer for his own negligence is qualified as follows:

First, it is not enough that he was the chief cause.

If the employe himself has been negligent and if this in any degree contributed to the accident, the employer is not held. This is known as the principle of "contributory negligence." The idea is that the courts, not being able to separate results flowing from these two causes and to determine how much was due to one and how much to the other, will refuse to grant compensation if the employe's negligence contributed to the accident even though only in a slight degree.

[11]Adapted from *Workingmen's Insurance in Europe,* 5–7. Copyright by the Russell Sage Foundation (1910).

Second, the accident must not have been a consequence of the ordinary risks of the occupation.

If it can be shown or the conclusion fairly be deducted that the employe assumed this particular risk as a condition of his contract of employment, or as the ordinary risk of his occupation of which he knew or was bound to know, the employer is not held. If the employe was aware that a certain danger existed and notwithstanding continued to work, this action on his part would bar recovery. As a corollary to this, the courts have held very generally that the employe must be presumed to know what are the ordinary dangers of his occupation, and even what are the unusual dangers connected with continuing to perform the duties of that occupation, when the place where it is carried on, or the machinery or tools with which it is carried on, are defective.

This is called the principle of "assumption of risk." Some courts have gone so far as to hold that, even though the employer is required by law to keep the machinery, tools, and the place in which the work is done in a certain condition of safety, and that although by failing to do so he has rendered himself liable to a penalty, the workman, notwithstanding, will not be able to recover if he has known of these defects and has nevertheless continued to work. The same courts have also held that the fact that he has called the defects to the attention of his employer and asked that they be remedied, will not render the employer liable if the workman, notwithstanding that the defects have not been remedied, continues to work. In fact, calling the defects to the attention of others prejudices his claim in that it is proof positive that he knows of them.

Third, the accident must have been the result of the employer's own negligence and not that of another employe or employes.

If the workman has been injured because one or more of the employes working with him were negligent, the employer will not be held. This proceeds from the idea that each workman whose negligence has caused the injury should himself be held financially responsible; and since in most cases he is in fact financially irresponsible and could not respond to a judgment, the result of the application of this rule is that the persons injured are not compensated at all. This is directly contrary to the rule which applies when the injury is to one not an employe; in that case the employer, under the general doctrine of principal and agent, is held liable.

The principle stated above is known in practice as the "fellow servant" rule. It has been carried so far by some courts that it is difficult to see how a corporation employer could be held responsible at all, no matter what officer or other employe was negligent. Even

an officer is an agent or employe, and therefore a fellow servant with all other employes, although the courts have usually not so held. Except in the case of executive officers, however, the rule has been applied so sweepingly that, for instance, a scrubwoman washing out railway coaches might be held to be a fellow servant with the superintendent of the road, and, therefore, without a good claim against the company for negligence attributable to him.

The "fellow servant" rule grew up in the courts out of the simplicity of the common law, which in its origin did not know employers and employes in the modern industrial or commercial sense, but only "masters" and "servants." The law did not hold the master liable, even on the ground of negligence. It certainly would have refused to require him to compensate one servant for the negligence of another. This principle manifestly has little or no suitability for the uses of a commercial and highly organized industrial community, in which much the larger part of the service performed by employes is not for the direct enjoyment of the employer but is part of the aggregate cost of products or services sold by him to the public at a price to cover all the costs. In recent years the "fellow servant" rule has been much relaxed, first by the courts and later by legislatures. In many states an employe who supervises the work and controls the workman is held to be a "vice-principal" and to represent the employer, so that his negligence is treated as if it were the negligence of the employer.

Under the rules of law just outlined, a very large proportion of the accidents which occur in the industries of the country go uncompensated. In some cases, on the other hand, the employer is held for substantial amounts, and occasionally very large verdicts are recovered, but in only a small percentage of the cases is the compensation adequate.

265. The Incidence of Work Accidents[12]

BY E. H. DOWNEY

Work accidents, in the nature of the case, are sustained principally by wage-earners, who are substantially propertyless as a matter of course, who have no savings to speak of, and whose incomes, for the most part, are too small to leave any adequate margin for accident insurance. The almost total absence of property or savings among wage-workers is abundantly demonstrated by tax returns and the records of savings banks and life insurance companies.

[12]Adapted from *History of Work Accident Indemnity in Iowa*, 6–8. Published by the State Historical Society of Iowa (1912).

But wages statistics are yet more conclusive to the same effect. A recent investigator of this subject, Professor Scott Nearing of the University of Pennsylvania, concludes that one-half of the adult male wage-workers of the United States receive less than $500 a year; that three-fourths of them get less than $600, and that only 10 per cent are in receipt of more than $800 annually. As to women wage-workers, three-fifths are receiving less than $325 yearly; nine-tenths are paid less than $500, and only one in twenty is paid more than $600. These estimates are well substantiated by the findings of other investigators. More than half of the workmen injured in the Pittsburgh district in 1907 were earning less than $15 weekly (making no allowance for unemployment) at the time of injury. Of the men sustaining industrial injuries in Minnesota in 1909-10, 47 per cent were receiving less than $12.50 and 78 per cent were receiving less than $15 weekly.

It needs no argument to show that families in receipt of incomes such as these can have neither property, savings accounts nor insurance. And this conclusion, finally, is corroborated by investigations into the insurance actually carried by wage-workers. Of 132 married men killed in Pittsburgh, only 6 had insurance in substantial amount and only 25 out of 214 left savings, insurance, and trade-union and fraternal benefits to the amount of $500 each. In New York state 175 working men who suffered fatal or permanently disabling accidents had insurance in the aggregate sum of $18,635. Nor are these extreme instances selected to make out a case. The average value of 13,488,124 "industrial insurance" policies in force in 1902 was only $135. The unvarnished fact is that the wage-earner neither does, nor can, provide for the contingencies of sickness, accident, and unemployment.

To the wage-worker, then, even when no one but himself is dependent on his earnings, the loss of a few weeks' wages means serious privation, and permanent incapacity means beggary. But quite half the victims of work accidents are married men, and a majority of even the unmarried contribute to the support of others. For example, of 467 fatal accidents in Allegheny County, Pennsylvania, 258 were sustained by married men and 129 others by regular contributors to the support of relatives; whereas only 80 of the 467 dead were wholly without dependents. Of 285 fatal accidents investigated in Cuyahoga County, Ohio, 176 were suffered by heads of families. Of 1,476 men killed on the job in New York state, 679 were the sole supporters of 1,775 dependents, 167 were the principal supporters of 520 dependents and 252 contributed to the support of 668 relatives—leaving but 378, or 35 per cent of the whole number

of deceased, entirely without economic responsibilities. In Wisconsin 43 per cent of the injured workmen whose conjugal conditions could be learned by the State Bureau of Labor were married.

A serious work accident, therefore, commonly deprives a necessitous family of its sole, or chief, or at least a very important, source of income. The inevitable result, in the absence of systematic accident indemnity, is poverty, and the long train of social evils that spring from poverty. It is not only that victims of unindemnified work accidents suffer prolonged incapacity and often needless death from want of means to obtain proper care, not only that families are compelled to reduce a standard of living already low, and that women and children are forced into employments unsuited to their age and sex, with resultant physical and moral deterioration; but it is that the ever-present fear of undeserved want goes far to impair that spirit of hopefulness and enterprise upon which industrial efficiency so largely depends.

266. The Necessity of Employer's Liability[13]

BY ADNA F. WEBER

It must be clear, upon reflection, that the conditions under which modern industry is carried on preclude the possibility of explaining every accident by somebody's negligence. This much was dimly understood when various countries took the first step of shifting the *onus probandi* from employee to employer. If, now, the employees are not to blame for the innumerable injuries to which they are subject, why should they be made to bear the financial burden of those injuries? Why should not that burden be distributed over the community instead of being concentrated upon a certain number of families who, in any event, will have to bear the physical and mental suffering involved in the death, crippling, or maiming of men? The risk of fire is undeniably greater in a gunpowder mill than in a brewery, but the owner of the mill does not bear the burden by contenting himself with lower profits than the brewer's; he simply pays for the greater risk by higher rates of fire insurance and passes the cost on to the consuming public in a higher price for his product. If the additional expense imposed upon a gunpowder manufacturer through the more frequent losses by fire can be thus recouped from consumers, why should not the expense of indemnifying his workmen for accidents be likewise made a part of the cost of production,

[13]Adapted from an article published in the *Political Science Quarterly*, XVII, 279–281. Copyright (1902).

and thereby be transferred to the community at large? Only one thing will prevent such shifting of the burden, and that is the ability of competitors to put their goods on the market without incurring like charges. Hence the law must require all competitors in a given trade to make the same compensation for the same injuries. This is what Europe has done; by compelling employers to compensate injured employees according to a fixed scale, it has taxed the community, through higher prices of goods, for the support of its injured members.

Many minds bred in the philosophy of individualism will undoubtedly see in such legislation nothing but injustice to the employer. In reality such legislation is in strict conformance with the innermost spirit of English and American common law. It recognizes the existence of undeserved distress among workingmen and undertakes to alleviate their suffering by giving them a claim upon some person who is pecuniarily responsible. And that is precisely the principle embodied in the time-honored common-law rule that the principal is liable for the acts of his agent.

The course of reasoning thus followed to justify the principal-and-agent theory of liability also justified the workmen's compensation acts adopted by all the leading countries of Europe, which require the employer to assume all the risks of the employment which he calls into being. But while the employer makes the primary payment, just as he pays for the wear and tear of his machinery or the loss of his plant by fire, the consumers ultimately pay the cost. The alternative to such a general distribution of the financial burdens of industrial accidents is the present method, by which the entire burden is put primarily upon the poorest classes, and when it crushes them, to the damage of the community, is at last tardily assumed by the latter through the public charities.

D. SICKNESS AND OLD AGE

267. The Industrial Cost of Sickness[14]

BY JOSEPH P. CHAMBERLAIN

It is important that we should consider the many shreds of information which may be pieced together to show the extent and need of sickness insurance in the United States. No figures exist from which we may estimate accurately the probable amount of loss caused by sickness in this country, but a committee of experts acting for the American Association for Labor Legislation has estimated

[14]Adapted from "The Practicability of Compulsory Sickness Insurance in America," in the *American Labor Legislation Review,* IV, 52–53 (1914).

that annually there are 248,750,000 days of sickness among workmen in the United States, costing $792,892,860. The United States Bureau of Labor reports that every workman in the steel industry has the expectation of 9 days lost by sickness in a year as against 4 days lost by accident, a significant proportion when we realize that it does not cover the cases of men forced by sickness to quit entirely, and that only the sick leave their work.

The burden is not borne entirely by the working people. Sums which would undoubtedly amount to considerable in the aggregate are paid by employers as wages to sick employees and to the different insurance funds in which both employer and employee are interested. The extent of the contribution of private charity may be guessed by the statement of the New York Association for Improving the Condition of the Poor, that 40 per cent of the persons helped by it in 1912 became dependent on account of sickness, a proportion, which, according to most authorities, is rather higher than the average. The contribution of the state and the public, through the support of hospitals and dispensaries, is a large figure. Studies of social conditions in New York City show that the dispensary and the hospital are the principal resources in sickness of the poorest paid classes of workmen.

These sums, large though they must be in the aggregate, leave the huge bulk of the cost of sickness on the shoulders of the workmen themselves, and to lessen in individual cases its crushing weight, often increased by the cost of burial, a widely extended system of sickness and burial insurance has grown up. There are a variety of carriers of this insurance: (1) Industrial and assessment, sickness and burial insurance companies and associations; (2) establishment funds; (3) the lodges of large fraternal orders and small local societies frequently affiliated with a church in foreign communities; (4) labor-union locals, and, to some extent, national organizations. The usual form of benefit is a cash payment in the event of death and a weekly payment to a person who is unable to earn from sickness or accident.

268. Why Sickness Insurance Should Be Compulsory[15]

BY I. M. RUBINOW

The lesson of history is strongly in favor of the compulsory principle in connection with sickness insurance. The considerations which have led to this conclusion are as follows:

[15]Adapted from "Standards of Sickness Insurance," in the *Journal of Political Economy*, XXIII, 226–227 (1915).

1. The demonstrated inability to bring the neediest strata of the working class into the system by any measure short of compulsion. Under all voluntary systems the proportion of the insured in a definite labor group is in inverse ratio to its economic status. Ability and willingness to meet the cost of insurance presuppose the existence of some surplus in the budget and a sufficient cultural status for an appreciation of the advantages of the insurance principle. Both are least present in the lower strata of the wage-working class where disease is most frequent and the economic need caused by disease greatest. Experience has proved that only by compulsion can these be reached.

2. Shifting the burden of insurance. A study of the social causes of disease establishes at least a partial responsibility for illness on the part of industry and society. Justice would require that industry and society should share in the cost of sickness insurance. But besides this argument of abstract equity, there is the economic fact that for a large proportion of the wage-workers the earnings are such as to make the cost of insurance too heavy a burden. Both equity and necessity require that at least a part of the burden be shared by other classes in society. The subsidized voluntary system recognizes this, and endeavors to relieve the burden by a state or local government subsidy. But only through a compulsory system does it become possible to shift part of the cost upon the employer and upon industry at large. The essential feature of compulsion is exercised upon the employer who is forced to meet part of the cost.

3. Standardization of the insurance system. Not only the quantitative, but also the qualitative development of the insurance system must be considered. It is important that not only all strata of working men be insured, but that the services rendered by the insurance institutions be effective and capable of meeting the problems which call for sickness insurance. Under a subsidized system an effort is usually made to accomplish this result by exacting certain conditions before the result is granted. At best the requirements of a voluntary system cannot be far above the actual practice of the organizations existing at the time, or otherwise it is in danger of failing entirely. It is necessary, as in Germany and Great Britain, to enforce definite minimum requirements, which are adjudged practical and necessary, while the very contribution from industry makes a higher minimum possible.

269. The British National Insurance Bill

BY WARREN S. THOMPSON

The British National Insurance Bill is England's most momentous piece of social legislation, if indeed it is not the world's. It is largely the result of an extended visit which Mr. Lloyd-George made to Germany in 1908. He left Germany fully convinced that national insurance was the proper method of dealing with the conditions which the reports on the Poor Law showed to stand in dire need of immediate alleviation. The significant part of the bill is that which deals with health insurance. Only that part will be discussed here.

Under the provisions of the part relating to health all wage-earners who receive less than £160 annually, are compelled to insure their health. Those exempted are for the most part in Government employ, and already entitled to benefits, and those who are not dependent upon their work as their chief means of livelihood. The best actuaries estimate that about 9,200,000 men and 3,800,000 women will become members of "approved societies" when the law goes into effect. It will be six months before any benefits are granted and two years before anyone will receive "disablement" benefits.

The contributions are payable weekly. They are divided between the employer, the workman, and Parliament, as follows: for the men, the employer pays 3, the workman 4, and Parliament 2, out of a total of 9 pence; for the women, the employer 3, the working-woman 3, and Parliament 2, out of a total of 8 pence. Special provision is made in the case of those who receive very low wages for the employer and Parliament to pay either the entire contribution or all of it but 1 penny. The employer is held responsible for the payment, both of his own contribution and that of the employee. The payment is made by the use of stamps and the employer is authorized to deduct the employee's contribution from his weekly wage.

There are five benefits to be given: (1) Medical benefit. This includes medical attention and the necessary drugs when one is ill, and may be extended to the dependents of the injured person when the authorities have the means and deem it advisable. (2) Sanatorium benefit. This entitles a member who has tuberculosis or a similar disease to be treated in a sanatorium when it is needed. This benefit also may be extended to the dependents of the injured person. A definite amount, 1 shilling 4 pence is available for each member annually for the payment of this benefit. This amount must not be exceeded unless the local authorities and the Treasury vote extra aid. (3) Sickness benefit. This is a cash payment made

weekly to the insured person or his dependents and continues for 26 weeks. In the case of men it is 10 shillings a week for the first 13 weeks and 5 shillings for the second 13 weeks; in the case of women 7 shillings 6 pence for the first 13 weeks and 5 shillings for the second 13 weeks. If the financial condition of the society permits, the benefits for the second 13 weeks may be increased. (4) Disability benefit. This is a weekly payment of 5 shillings to a member who is temporarily or permanently disabled as the result of sickness or accident not in any way connected with his work. It lasts "so long as he is rendered unfit by the disease or disablement." (5) Maternity benefit. This is a lump sum of 30 shillings paid upon the birth of a child, either when the mother herself is insured or when she is the wife of an insured man. In addition to these, other benefits may be granted, if the financial condition of the society permits it. The benefits are decreased when the person is in arrears with his contribution, when he is under age and not married, and when he is past 50 at the time of becoming insured.

If a person is not so employed as to become a regular member, he may join a society as a voluntary contributor. The rate at which he pays is determined by his age at entrance. Adequate provision is made to allow the transfer of a member from the voluntary to the employed rate and vice versa. Since there is no contribution from the employer in the case of a voluntary member, this amount must be paid by the member. The contribution from Parliament is the same as in the case of the regular member, and the benefits he receives are the same.

A deposit contributor is one who cannot obtain admission to an approved society either as an employed or a voluntary contributor. He deposits his savings in the post office in a manner similar to our Postal Savings Bank system. From his deposit, after it is subsidized by Parliament, the proper amount is deducted to entitle him to medical and sanatorium benefits. For the other benefits he can merely withdraw the remainder of his subsidized deposit.

There are two separate organizations for the administration of benefits. A local Health Committee is established for each county and county borough. This committee in conjunction with the local authorities already existing administers the medical and sanatorium benefits. The other benefits are administered by approved societies. The reason for this division of labor is that Friendly Societies, having millions of members, already give benefits of various sorts. It is intended not to interfere with the other activities of these societies, but to have them establish separate branches to administer the remaining health insurance benefits. Any society which does this may

become an approved society, provided it is not carried on for profit and is subject to the control of its members. The approval rests with the Insurance Commissioners.

Many details of the scheme are fully set forth in the bill, but many others are left to the Insurance Commissioners. Their rules and regulations are, of course, subject to the approval of Parliament. Strange as this delegation of legislative power seems, there is little doubt that it will contribute much to the initial success of the scheme. The commission will be able to adapt many of its regulations to exigencies as they arise and thus correct at once many of the defects which are bound to appear upon the launching of this mighty scheme.

270. Old-Age Pensions in New Zealand[16]

BY W. P. REEVES

Though dire poverty in New Zealand is almost confined to the aged, to disabled workers, to deserted wives and children, still even the Fortunate Isles have not escaped the cause of pauperism. The State has not only to provide hospitals, but also to furnish what in the colonies is called Charitable Aid. Even under a liberal system of poor relief pauperism is keenly felt by the better class of the aged poor. Hence public opinion was quite ready for the proposal of an Old Age Pension Law.

When such a law was at length proposed, opposition to it, as expressed in the debates, seems to have been based on the contention that it was likely to burden the colony needlessly and increasingly sap the springs of self-reliance, and tax the thrifty for the benefit of the improvident. On behalf of the Act supporters dwelt with considerable force upon the ups and downs and inevitable accidents of colonial life. They pointed out that in New Zealand, as in all countries occupied in growing raw materials for Europe, times of prosperity are invariably followed by periods of contraction and depression, when the savings even of the most thrifty of the poorer classes may be inevitably swallowed up in struggling with unemployment. Much stress was laid upon the uncertainty of investments into which work-people are constantly tempted to put their small savings. The House was reminded of notorious instances in which the very thrift of careful workers had led to their ruin by exposing them to the calls levied by the liquidators of bankrupt financial companies in which they had invested their money. Speakers suggested that the virtues of thrift in the case of married

[16]Adapted from *State Experiments in Australia and New Zealand*, 243–281 (1902).

work-people might easily be exaggerated, since to bring up a half dozen children decently required a breadwinner's whole earnings.

The act, as finally passed, is not universal. Every deserving old man and old woman who has lived in the colony for twenty-five years continuously is entitled to a state pension, the maximum of which is £18 a year. But the proviso and conditions with which the act is hedged about are such that not more than 40 per cent of the aged are at all likely to be found entitled to it. Nor did those who passed the act intend that any larger proportion should be. The full £18 is paid only to those whose yearly income from all source is less than £34. From £34 to £52, £1 is taken off for every £1 of income. Old women have exactly the same title to the pension as old men. Applicants must not have been absent more than two years altogether from New Zealand during the quarter of a century preceding the application. They must be subjects of His Majesty, and, if naturalized subjects, must have been naturalized five years. The would-be pensioner, moreover, must bring evidence that he or she for the previous five years has led a sober and reputable life, and is of good moral character. A pensioner may at any time forfeit his pension, if convicted of serious crime, or if proved to be leading a drunken, riotous, or spendthrift life.

The criticisms which have been brought against the act are: first, that it permits designing persons to impose on the government; second, that its cost is too heavy; and third, that it discourages thrift. Opponents of the policy have claimed that many of the pensioners have wasted in drink money that they should have saved. Another complaint has been that children wealthy enough to support poor parents without serious inconvenience have taken advantage of the Act to transfer this duty to the State. The case has been cited of an old couple divesting themselves of their property, deeding it to a daughter who is married, and after this applying for a pension. It is said that they now live with the daughter on the land that was their own, and drive in a pony-chaise once a month to draw the money.

The cost of the system, two hundred thousand pounds a year, is a substantial burden. But times are very good in New Zealand just now, and a prosperous colony with a growing revenue can afford to be bold.

On the vexed question of the effect of free pensions upon thrift among the poor, it may be pointed out that no contributory scheme is perfect. This act certainly does not offer any direct and specific encouragement to thrift. Yet, so meager an allowance as a shilling a day deferred to an age which most people do not reach,

scarcely offers an inducement likely to interfere with the daily habits and plan of life of the very poor. People who were thrifty before are not likely to be unthrifty now. And, among the lowest grade of wage-earners, it is questionable whether thrift is a virtue or not. Certainly it would be easier to teach this class to spend wisely than to teach it to save. Defects the Act probably has, but they are not its essence. It has come to stay.

E. THE STANDARD OF LIVING

271. The Nature of the Standard of Living[17]

BY FRANK HATCH STREIGHTOFF

"How can these people endure it?" asked the fair boarder, closing her novel and languidly sinking into the depths of her hammock. "Mr. Farmer drudges from four A. M. till dark, and never a visible result! He's never been to the theater! Why, he hasn't even read *The Balance of Power*. I don't call that living—it may be existing." Such words are heard every day in rural summer resorts. Corresponding sentiments are entertained by many a farmer who cannot see how his guests are held by the chaotic buzz of the metropolis. The people of one city block "couldn't be hired" to move to certain other squares; yet the respectable inhabitants of these latter districts "wouldn't be buried from Z Street." It is really amusing to notice how the words "live" and "exist" are contrasted, but the distinction is merely the expression of the fact that "consciously or unconsciously every man whose means, or wealth, or resources are more limited than this wants—and this is practically the case with human beings generally—has a scale of wants in his mind when he arranges these means. On the basis of this scale he satisfies what are his most urgent wants and leaves the less urgent ones unsatisfied."[18] In other words, every man has his own "standard of living."

Satisfactorily to define the standard of living is extremely difficult. Bullock writes, "Each class of people in any society is accustomed to enjoy a greater or less amount of the comforts or luxuries of life. The amount of comforts or luxuries customarily enjoyed forms the standard of living of that class."[19] That is to say, the standard of living, as the expression is usually understood, consists simply of what men do actually enjoy. On the other hand there are always felt but unsated wants that prompt men to struggle;

[17]Adapted from *The Standard of Living among the Industrial People of America*, 1–4. Copyright by Hart, Schaffner & Marx (1911).

[18]Smart, *Introduction to the Theory of Value*, 22.

[19]*Introduction to the Study of Economics*, 126.

these reasonable unfilled desires are the motive powers to progress. Few indeed are the women who do not confidently whisper to their friends, "We cannot do that now, for we are rather poor this year." There is an "ideal" standard of living which is always in advance of achieved satisfaction.

The definition given here is valuable in suggesting two important truths. First, it properly emphasizes comforts and luxuries. In everyday affairs effort is often directed more to securing superfluities than in providing necessities. In the second place, the extent and content of the unsated wants in a man's ideal standard is largely determined by actual satisfactions.

Each individual has his own more or less rational concept of what is essential to the maintenance of his own social position; and he knows exactly what this position is, whether he be the bank clerk who delights in race horses, or the man who shares the same desk and plays on the Sunday-school ball team. The one demands "smart" raiment and amusement at highly nervous tension, the other wants respectable, serviceable clothes and healthy sport. They live in different worlds, they have individual criteria: so each man has his own standard of living. But it will be noted that bank clerks as a class have some wants in contrast to the mechanics, for instance. The clerks must enter their offices clean-shaven, the mechanics like a good scrub after work; the former wear kid gloves and fresh linen, the latter are more comfortable in woolen gloves and flannel shirts. These contrasts and comparisons can be extended until the standard of each group can be determined with considerable precision. Thus the class standard of living may be compared to a composite photograph; certain features are emphasized, while others are faint or blurred according to the proportion of the individuals possessing the character. On the other hand, development of the individual is so largely influenced by his environment that his notions are, in the main, those of his class.

But class is not the only factor in the development of the individual's ideal standard of living. Aside from its large determining influence in the matter of class membership, income has an important part to play; purchasing power limits the quantity and quality of obtainable satisfactions. The higher the individual climbs on the ladder of success, the wider is his view; the more he sees, the more he seeks.

Another determinant of the standard of living is the progress of civilization. The modern carpenter has far more comfort than Richard II dreamed of, simply because progress has put new things within his reach, but the carpenter knows that there are many, many

things which he cannot have. Thus there is a constant, though irregular rise of the standard of living as civilization becomes more complex.

272. A Wage-Earner's Budget[20]

BY LOUISE BOLARD MORE

This household consists of father and mother, both born in Ireland, and two boys, 8 and 9 years of age. The man is a steady, temperate, unskilled laborer. Neither Mr. nor Mrs. R. have known any higher plane of living than their present surroundings; both are uneducated, but the woman especially possesses considerable native thrift and intelligence. This family is representative of the average family of this size on a fairly steady income of $12 a week, with no drink, sickness, or unusual conditions to make it abnormal. The man was out of work for six weeks in the year, but that is not unusual. The woman is neat, honest, and reliable, and tries hard "to get ahead." For three months the man had night work as stableman at $13 a week. The family has never been dependent, but while the man was out of work a sister gave them $25 as a present, and they were obliged to draw $10 from the little which they had saved in the bank. The total income for the year was:

Mr. R.: 33 wks. at $12.00.....	
" 13 wks. at 13.00	$565.00
Drew from Bank	10.00
Gift from sister	25.00
Total	$600.00

The estimated expenditures were as follows:

Rent—2 mos. at $10.00, 7 mos. at $12.00, 3 mos. at $11.00..	$137.00
Food—From $4.00 to $7.00 a week.....	277.00
Drink—(pint of beer at supper daily).....	36.40
Clothing	40.00
Light and fuel	52.00
Insurance from 50 to 75 cents a week.....	29.25
Papers, 11 cents a week	5.72
Church, 35 cents a week (for 50 weeks).....	17.50
Man's spending-money	25.00
Sundries	2.63
Total	$622.50
Deficit	22.50

This deficit consisted of bills owing to the butcher and grocer amounting to $10, back insurance payments equal to $2.50, and clothing bought "on time" on which $10 was still unpaid. The rent varied because the family had moved twice in the year, looking for

[20]Adapted from *Wage-Earners' Budgets,* 163–167. Copyright by Henry Holt & Co. (1907).

cheaper rent. The last rooms, for which they paid $10 a month rent, were three dark, small rooms. The light of the "parlor" at the back of the tenement was almost shut off by a large factory built close to it. The windows in the kitchen and bedroom opened on an air-shaft. The rooms, however, were very neat, lace-curtains at the windows, plush furniture, pictures of the family, carpet on the floor, and all the bric-a-brac usual in homes of this class. There was a white iron bed in the bedroom, with the customary folding-bed for the children.

The expenditure for food varied greatly. A budget kept for a week showed $7 spent for food, but Mrs. R. said they could only spend that much when the man was working steadily or when there was no rent to pay. The weeks in which semi-monthly payments of rent were made, the food allowance was cut down to about $4 a week. Whenever there was any unusual expense the food suffered. During the six weeks the man was not working they did not spend more than $4.50 a week for food. This is an illustration of a very common condition among wage-earners and is due to the fact that, on the prevailing rate of unskilled wages, it is difficult if not impossible for a family to prepare for such emergencies. Mrs. R. estimated that $277 had been spent for food in the year, making these allowances, and that the average per week would be about $5.33. On the whole, the food was adequate and wholesome, and the entire family appeared to be in good condition. They had no illness during the year.

The standard of dress is classed as "medium." They had few clothes, but took good care of them. The father had plain working-clothes, the mother always wore wrappers at home, and only had one street dress, as she never went anywhere except to church. The boys were neat and clean. Mrs. R. bought clothing "on time"—she was ashamed of it, but said the boys could not have new suits for Easter unless she did. She itemized the expenditures for clothing for the year as follows:

Man, 1 pair shoes	$ 2.00
Woman, 1 pair shoes	1.25
Two boys: 2 suits	7.00
2 overcoats	11.00
4 pairs shoes at 75 cts., 4 pairs at 69 cts.	5.76
Mending shoes	2.80
2 pairs pants, $1.00; 4 sets underwear $1.60	2.60
4 shirt-waists; 2 at 50c and 2 at 30c	1.60
4 caps	.70
Miscellaneous	5.29
Total	$40.00

Mrs. R. cannot sew, and buys all their clothes ready-made of a cheap quality, but the little boys are not hard on their clothes. Her sister knits stockings for the entire family.

The expenditure for coal and gas and oil was rather high, owing to the dark rooms. Coal was bought by the bushel, and the man brought home wood free for kindling. Gas was burned in two places where they lived, and the gas-bills for nine months amounted to $11.20. In all, coal cost $37.75 (at $ .25 a bushel), and oil for three months about $3.05—total $52.

This family did not spend one cent for recreation, except what the father had out of his "spending-money." This was very little, for while he was earning $12 a week his wife gave him not more than $ .40 a week and often only $ .25 ($ .15 for tobacco and $ .10 for a shave), but when he earned $13 a week (for 3 months) he kept out a dollar a week for "spending-money." His allowance for the entire year would not exceed $25. He gave all the rest to Mrs. R., who said he was a "model husband." They are very religious and go to the Catholic Church every Sunday, only missing two Sundays in the year. They pay 10 cents each for a seat, put 10 cents in the collection, and give the boys 2 or 3 pennies for the collection, making a total of $ .35 a Sunday.

They were all insured for $ .50 a week, $ .15 for the man, $ .15 for the woman, and $ .10 each for the boys, until the man's wages were raised to $13, when his wife raised his insurance policy and paid $ .40 a week for him. This extra amount was more than they could afford to pay, for in those 13 weeks they dropped behind $2.50 on the insurance payments.

The only reading is the penny papers. The boys are sent to the parochial school, and the parents are very ambitious for them. Unless sickness or unemployment comes, this family will be able to make up the deficit of $22.50 on the man's wages of $13 a week, but it is very evident from a study of these expenditures that it will be impossible to save any considerable sum for the future.

273. Life at $1.65 a Day[21]

BY MARGARET F. BYINGTON

Let us consider how the economic problem of life can be worked out on $1.65 a day.

With the single men the problem is, of course, a simple one. Many care little how they live so long as they live cheaply. One of the lodging-houses which I visited consisted of two rooms one above the other, each measuring perhaps 12 by 20 feet. In the kitchen

[21]Adapted from *Homestead; the Households of a Mill Town,* 138–143. Copyright by the Russell Sage Foundation (1910).

was the wife of the "boarding boss" getting dinner—some sort of hot apple cake and a stew of the cheapest cuts of meats. Along one side of the room was an oilcloth-covered table with a plank bench on each side; above it a rack holding a long row of handleless white cups and a shelf with tin knives and forks. Near the up-to-date range, the only piece of real furniture in the room, hung the "buckets" in which all mill men carry their noon or midnight meals. In the room above, double iron bedsteads were set close together and on them comfortables were neatly laid. In these two rooms, beside the "boarding boss," a stalwart Bulgarian, his wife, and two babies, lived 20 men.

The "boarding boss" runs the house and the men pay $3.00 a month for a place to sleep, for having their clothes washed, and their food cooked. In addition, an account is kept of the food purchased and the total is divided among the men on pay day. The housewife also purchases and cooks any special food a man orders; beef, pork, lamb, each with a tag of some sort labeling the order, will all be fried together. A separate statement for each boarder is kept of these expenses.

Such an account for a group of men in a small Slavic household may prove of interest. The family, consisting of a man, his wife, his brother, three children, and four boarders occupied a house of four rooms, for which they paid a rent of $14.00. The man earned only $10.80 a week with which to meet the needs of a growing family. One-half the cost of the food was paid by the boarders, including the brother, and amounted for each man to about $1.06 a week. The expenditures for the week were: vegetables, $1.06; fruit, $0.56; milk, eggs, etc., $1.98; sugar, $0.49; sundries, $0.76; and meat, $5.78, making a total of $10.63. Beef, pork, veal, eggs, milk, cheese, and fruit were ordered as "extras" by the five boarders in varying proportions. Upon these each spent from $3.00 to $4.00.

The average expense for each man including his share of the general sum, together with the amount spent individually, was about $8.02 a month. Adding $3.00 a month for room and washing, the total expense to each was about $11.00 a month. In prosperous times these men make from $9.90 to $12.00 a week. It is obvious, therefore, that if the fixed expenditure of these single men is less than $3.00 a week, a large margin remains over and above clothes for saving or indulgence. They can thus send for wife and children, fulfil their duties to aged parents, live high according to their lights, or make provision for their own future.

But nearly half of the men employed in the mill have families to support, usually on the same wage. How does the other half

live? Let us take the average expenditure of ten Slavic budget families without boarders, earning less than $12.00 a week, whose total average expenditure was $10.03 a week, 13 cents above the usual day laborer's regular wage of $9.90. The figures are as follows: Food, $4.68; rent, $1.62; fuel, $0.27; clothing, $1.57; other housekeeping expenses, $0.13; tobacco, $0.07; liquor, $0.55; insurance, $0.77; other expenses, $0.41.

This distribution of expenses is fairly representative of the amount of money the Slavs can count on unless they work overtime or take in lodgers. The $1.62 a week for rent provides only for a one- or two-room tenement, two rooms in one of the undesirable houses costing $8.00 a month. With an average expenditure in this group of $4.64 a week, the cost of food for the average family would equal 20 cents a day per grown man, 2 cents a day less than the estimate for essentials.

To show the food value of their provisions, we must rely upon the statement of the average expenditure of one family, including man, his wife, and three children, twelve, three and nine months old. The family was dependent on the man's earnings of $9.90 a week. The food expenditures for a week were: bread, $0.75; baker's food, $0.03; meat, $1.46; flour, $0.26; potatoes, $0.25; other vegetables, $0.09; dried beans, $0.06; eggs, $0.24; milk, $0.11; butter, $0.38; cheese, $0.05; fresh fruit, $0.13; sugar, $0.14; tea, $0.08; coffee, $0.76; and sundries, $0.40. The total is $5.19, making an average of $0.74 a day. This is $0.23 a day on a grown-man-unit basis.

The nutritive value of the food was probably a little below the requisite amount. In all probability these Slavic women are not skillful buyers—the accounts consist of a rather monotonous iteration of "bread, meat—bread, meat" that does not promise an inspiring diet. The expenditure for clothing among the ten families was below what is estimated as essential. No money was expended for furniture; a fact borne out by the utter bareness of the two-room houses of many of the laborers. With the exception of insurance and comparatively high expenditure for liquor, these figures indicate that life measured in terms of possessions is at a low ebb among the Slavic laborers. And what has become of the margin which was to make possible the attainment of that old-country ambition, a bit of property and a bank account? Some other means must be found to achieve these ends.

That device is to take in lodgers. The income from this source is no mean item. Of 102 families investigated, three-quarters received from lodgers a sum at least equal to the rent, while a

fifth received twice the amount of the rent or more. A glance at the sources of incomes of the families suggests that among the Slavs themselves the wages of an unskilled laborer are considered insufficient to support a family, even according to very low standards.

274. A "Fair Living Wage"[22]

BY LOUISE BOLAND MORE

What, then, is a "fair living wage" for an average family? The Massachusetts Bureau of Statistics puts it at $724 a year for a family of five; the New York Bureau of Labor at $520; Mr. John Mitchell, President of the United Mine Workers of America, at $600; Mr. Robert Hunter, author of "Poverty," says $460 (for actual and necessary expenses); and Dr. Edward T. Devine, Secretary of the Charity Organization of New York City, estimates $600 as a minimum. These estimates were all made at periods of lower prices and cost of living than the present (1906).

A "fair living wage" should be large enough not only to cover expenses which Mr. Rowntree calls "necessary for maintaining merely physical efficiency," but it should allow for some recreation and a few pleasures, for sickness, short periods of unemployment, and some provision for the future in the form of savings, insurance, or membership in benefit societies.

The whole question of a fair wage depends primarily on the amount and cost of food necessary for proper nutrition. If a man is underfed, he must underwork, as Mr. Rowntree says; his children are stunted in growth and intellect, and when a man is unfit for work he fails to get it or works for the lowest wages. Mr. Rowntree adds: "The most hopeless condition of the poor, as every social worker knows, is unfitness for work. Unfitness for work means low wages, low wages means insufficient food, insufficient food means unfitness for labor, and so the vicious circle is complete."

This investigation has shown that a well-nourished family of five in a city neighborhood needed at least $6 a week for food. The average for 39 families, having five in the family, was $327.24 a year for food. If we consider $6 a week (or $312 a year) as 43.4 per cent of the total expenditure (which was the average percentage expended for food in these 200 families, and very near the average for the workingmen's families in the extensive investigation of the Department of Labor), the total expenditure would be about $720 a year. It therefore seems a conservative conclusion to draw from this study that a "fair living wage" for a workingman's family of average size in New York City should be

[22]Adapted from *Wage-Earners' Budgets,* 268–270. Copyright by Henry Holt & Co. (1907).

at least $728 a year, or a steady income of $14 a week. Making allowance for a larger proportion of surplus than was found in these families, which is necessary to provide adequately for the future, the income should be somewhat larger than this,—this is, from $800 to $900 a year.

F. THE MINIMUM WAGE

275. The Promise of a Minimum Wage[23]

BY A. N. HOLCOMBE

The immediate direct effect of the establishment of a minimum standard-of-living wage would be to put an end to the employment of normal adult workers at lower rates. Not every wage-worker who has been employed at lower rates would necessarily be deprived of employment, nor would the wage of every such wage-earner necessarily be increased to the standard minimum rate. Some employees would receive the increase, and some would lose their employment. The actual effect would depend partly upon the efficiency of the wage-earners concerned, and partly upon the character of the demand for their services. In industries like department stores and steam laundries, which serve local markets and are free from outside competition, probably the increase of wages could be paid to all employees below the minimum without so increasing the cost of production as to produce a material decline in the demand. But in industries serving a wider market and subject to outside competition, such as cotton mills and shoe factories, the establishment of a legal minimum wage might reduce employment rather than increase wages. The outcome would depend largely upon the extent of the necessary increase and the rapidity with which it should be put in force. Some sweated industries might be altogether incapable of maintaining themselves. But such as these the country would be better without.

The greatest difficulty arises in the cases where work-people of distinctly different standards of living come into competition with one another. Unless the groups are of equal efficiency, the attempt to establish a single standard for all might result in securing the industry to the most efficient group and excluding the others from all employment therein. To attempt to establish an American standard-of-living wage for alien races of distinctly lower standards and lower efficiency would probably result in the exclusion of many aliens from employment in the country. It would also result in the exclusion of most of the negroes from the occupations in which the

[23]Adapted from an article in the *American Economic Review,* II, 33–37. Copyright (1912).

wage should be adjusted to the efficiency of the native whites. A legal minimum wage would probably be of advantage in promoting a better distribution of such immigrants among our various industries.

The indirect economic effects of the establishment of a minimum standard-of-living wage may be mentioned summarily.

First, the establishment by legislation of such a wage would make available to the poorest and most helpless of the laboring population a share in the advantages obtained by the better-to-do and stronger through voluntary association. An advantage would be the greater security for the protection of the interests of the public against the abuse of irresponsible power in the interests of special classes.

Secondly, the line would be more sharply drawn between the unemployable and the merely unemployed. It would also tend to restrict the influx of the unemployable from abroad, thus at once checking the increase of inferior labor and raising the average efficiency of the domestic supply.

Thirdly, there would result a restriction of the field of competition between workpeople. The wage-earner whose chief recommendation is his willingness to work for a pittance would lose the advantage of his submissiveness, and skill and strength would become of greater importance in obtaining employment.

Fourthly, there would result a restriction of the field of competition between employers. The employer whose chief stock in trade is his shrewdness in driving hard bargains would lose his advantage. The peculiar qualities of the best type of business men would be of greater importance in the achievement of success.

276. The Case for Wage-Boards[24]

BY CONSTANCE SMITH

Many of the objections ordinarily advanced against Wages Boards, or, indeed, against any proposal to regulate wages, are little more than a re-statement of the arguments employed to defeat the passing of the earlier Factory Acts. They rely for support on the principle, more or less disguised, of *laissez faire*. But there are some, more strictly addressed to the practical proposal now before the country, to which it seems desirable to give such brief consideration as space permits.

[24]Adapted from *The Case for Wages Boards*, 75–86. Published by the National Anti-Sweating League, London (1911).

First, there is the fear frequently expressed, that Wages Boards would increase unemployment, by pushing out of the labor market the less competent worker, who is unfit to earn even the minimum rate, and by giving the *coup de grace* to weak and tottering industries. The existing Wages Boards legislation of Victoria, makes special provision for the case of the old and slow worker. But granted that there are individuals of this class who will be unable, under the new conditions, to find employment, even at special rates, there still remains the question whether it is not wiser, on purely economic grounds, to face boldly the necessity of maintaining for a while a certain number of persons physically or mentally incapable of fully maintaining themeslves, rather than of condemning to "half employment" an infinitely greater number of people who, given a fair chance, are perfectly able to earn their own living.

But sound economists who have carefully studied the subject do not hold that under a Wages Board system we should have a "net" reduction of employment. Since the first result of the establishment of such a system will be an increased wages bill, involving the transference of a fresh portion of wealth to the pockets of certain classes of workers, there must at once follow an increased purchasing power on the part of those workers and a raising of the general standard of consumption in the community. Workers will not only buy more, but better articles, and this movement must inevitably tend both to greater volume and greater regularity of employment.

With regard to those industries which are so deficient in capital or in organization that they can only maintain a precarious foothold in the competitive area by under-payment of the workers they employ, it is clear that the community would be better off for their disappearance.

Would the cost of production, and consequently the price of the article to the consumer, be greatly raised by the establishment of minimum rates? Daily experience shows that, in a considerable number of industries, there is a margin which could safely be drawn upon for the levelling-up purposes of a minimum rate. Cases are not infrequently found, for instance, in trades employing women's labour at a sweated wage, where vigorous representation on behalf of the workers, acting upon a wholesome fear of publicity on the part of the employing firm, has produced a considerable increase, amounting on occasion to something like a doubling of the rate of pay. It must be remembered, further, that the cash margin is not the only one at the disposal of employers of labour. Human nature is lazy, and most people need some stimulus to enterprise. The

economy which is now too often effected by taking a penny or a halfpenny off the wages of the employes, would, were that method made impracticable by a Wages Board Determination, be otherwise contrived; by the introduction of improved machinery, by better organization, by checking the reckless waste which, where a vast quantity of very cheap articles are made by indifferent workers labouring desperately against time, swallows up a considerable amount of profit every year, and by abolition of the ruinous practice of selling under cost price in the case of certain of the articles manufactured, in order to make a market for the rest. Further, all industrial experience teaches that with the improvement of the workman comes improvement also in his work, even where this is highly specialized. Nor is cost of production necessarily lowest where the wages are low and the hours long.

Apprehension is often expressed lest the minimum wage, once established in an industry, should become the maximum in that industry; and assertions that this actually occurs have not been wanting. Again, there is much testimony from Victoria to support the contrary view. Opening, almost at haphazard, the latest Report of the Victorian Chief Inspector of Factories, we find, under the heading of the Aerated Water Trade Board, "The Determination is well complied with, *the wages of many of the men and boys being above the minimum.*" A similar state of things is found to obtain at home in industries where minimum rates have been fixed by means of collective bargaining or arbitration under the Board of Trade. Here, too, the more skilled, industrious, and capable worker is able to earn a higher wage than that calculated on the average capacity of the average man or woman.

The last objection to be considered is what may be called the moral objection. Many of those who have not been brought into personal contact with sweated workers, and with the conditions under which sweated industry is carried on, deprecate the setting up of any machinery which appears to limit the opportunity for free bargaining between employer and employed. They are afraid that such machinery may destroy the spirit of enterprise, and that the assumption of responsibility in the matter of wages by the State will tend to weaken the personal relation between masters and men. To such objectors the best reply is an invitation to study the situation at close quarters and at first hand. They cannot then fail to perceive that the outstanding features in the present position of the sweated worker, especially when that worker is a woman, are absolute inability to bargain freely and total lack of independence. Such a worker must take the work offered, at any terms that may be

proposed, under penalty of an immediate drop into the abyss of destitution. The spirit of enterprise is rarely found to animate those who are working excessive hours for a bare pittance. As to the "personal relationship," it is useless to devise schemes for preserving it; for good or evil, it is practically a thing of the past. More and more, industry and commerce, like battleships, tend towards the "all big" type. Everywhere, the business that was formerly the affair of an individual or a family is now the result of the activities of an association or a limited company acting through its salaried servants.

In a great number of cases the employer is practically powerless, even now, to deal personally with his employees. In time to come, as he becomes increasingly the instrument of great impersonal forces, financial and social, behind him, all capacity for such individual dealing will be taken from him. It is only by accepting, under the sanction of the State, the regulation of wages in those industries where it has hitherto gone unregulated, with such results in the shape of economic chaos and human degradation as we have been considering, that the best employer can save himself from being ultimately dragged down to the level of the worst. For him, as for his workers, an Act establishing Wages Boards would be a genuine measure of protection.

277. The Progress of the Minimum Wage[25]

BY FLORENCE KELLEY

Minimum-wage legislation was a favorite subject throughout 1913, when forty legislatures were in session, and state commissions were authorized to establish wage rates in California, Colorado, Minnesota, Nebraska, Oregon, Washington, and Wisconsin.[26] Commissions were authorized to prosecute inquiries as to the desirability of such legislation or as to the living wage for women and minors in Illinois, Indiana, Ohio, and Connecticut. In 1915, New York, Missouri, and Michigan have made public the results of such inquiries.

Utah dispenses outright with commission and wage boards, and establishes a flat rate of wages specified in the statute for girls four-

[25]Adapted from "The Case for the Minimum Wage: Status of Legislation in the United States," in *The Survey*, XXXIII, 487–489. Copyright (1915).

[26]Massachusetts preceded the states enumerated by passing a law providing for a Minimum Wage Commission in 1912.

teen to sixteen years of age, for minors over sixteen years, and for adult women.

The commissions of Oregon, Washington, Massachusetts, and Minnesota have, during 1913 and 1914, promulgated wage rates, and the difficulties peculiar to our system of legislation are now conspicuously manifest.

The outstanding characteristics of American minimum-wage legislation compared with that of England, Australia, and New Zealand are three: the first is the omission of men; the second is its reference to the welfare of the people as a whole; the third, which is responsible for both the others, is its subordination to the courts on grounds of constitutionality, entailing the practice of placing upon American states the burden of proof that they are acting within the police powers when they create state wage commissions and wage boards or conferences. In several states the name "industrial commission" or "industrial welfare commission" is deliberately intended to suggest that here is no apparatus intended merely to facilitate haggling between employers and employees, but an organ of the whole of society created to serve the whole, by protecting the health and morals of women and minors.

This is especially conspicuous in the laws of Oregon and Washington with their preambles which set forth that: "The welfare of the state of Washington [or Oregon] demands that women and minors be protected from conditions of labor that have a pernicious effect upon their health and morals. The state of Washington, therefore, exercising herein its police and sovereign power, declares that inadequate wages and unsanitary conditions of labor exert such pernicious effect." The same principle underlies the laws of California, Colorado, Minnesota, and Wisconsin.

Only Massachusetts and Nebraska follow the precedent set by England and Australia in requiring that the commission, in making determinations, consider also the state of the industry, not exclusively the needs of working women. Yet these states express their sense of need that the public participate in the process of wage determination, Massachusetts by requiring that one member of the commission shall be a woman, and in a wage board, with an equal number of representatives of employers and employees, there must be one or more representatives of the public. Nebraska provides for a commission of four members, of which one must be a woman. Both Massachusetts and Nebraska limit to mere publicity the penalty for failure to pay the minimum-wage rates established by their state commissions, neither fine nor imprisonment being prescribed.

The Wisconsin statute provides that the advisory board shall be so selected as "fairly to represent employers, employees, and the public." Obviously the solicitude for representation of the public arises less from fear that its interests may be overlooked than from apprehension lest, without such representation, the courts may hold minimum-wage laws alien to the police powers of the state.

Despite these precautions, however, progress is for the moment halted. Until the decision of the United States Supreme Court becomes known, no legislature is likely to experiment further in the new field.[27] But this is not all. The Minnesota rate-wage established October 23, 1914, to become effective November 23, has been met by a temporary injunction on the ground that "the questions presented are important and doubtful," and the pending decision in the Oregon case will "doubtless dispose of all the main questions involved in the Minnesota statute."

Some opposition to minimum-wage legislation has come from employers. More surprising is the opposition found, here and there, among labor leaders. Samuel Gompers and others have opposed all wage-board legislation for men, and have exercised a mildewing influence upon such effort even when confined to women. But the younger men within the ranks of trade-union leaders show themselves either indifferent or favorable to it.

These circumstances—the extraordinary powers of the courts, and the attitude of certain labor leaders—explain the stage of the movement for minimum-wage laws in America compared with England and Australia. The case now pending before the United States Supreme Court to determine the constitutionality of the Oregon minimum-wage law will settle the fate, for years to come, of effort in this field.

278. The Futility of the Minimum Wage[28]

BY J. LAURENCE LAUGHLIN

The hysterical agitation for a minimum wage (today urged chiefly for women) has in it no conception of a relation between wages and producing power. It is unsound for several reasons which touch the very interests of the laborers themselves.

[27]In the case of *Frank C. Stettler and Elmira Simpson* v. *Industrial Welfare Commission of Oregon,* the state Supreme Court unanimously upheld the constitutionality of the Oregon law. An appeal, however, was taken to the United States Supreme Court.

[28]Adapted from "A Monopoly of Labor," in the *Atlantic Monthly,* CXII, 451–453. Copyright (1913).

It introduces a new and unjustifiable basis of wages—that wages shall be paid on the basis of what it costs the recipient to live. If it is urged, for instance, that a woman cannot live on $5.00 a week, but can live on $8.00 and hence her minimum wage should be $8.00, the whole case has not been considered. If we accept—what we should not accept—the principle that wages should be related to the cost of living, and if it is accepted that the woman could live on $8.00 a week, on what grounds should she ever receive more than $8.00 a week? On what grounds could any one get $18.00 a week? At present $18.00 is paid on the ground that it is earned, that is, on the basis of a relation between wages and producing power. No other basis can stand for a moment in the actual work of industry. Men go into business to gain profit; if, in their opinion, the employee is not worth $8.00 a week, she will not be retained, no matter what it costs to live. If she is worth to the business $18.00, that will be the wage. No law can force anyone to remain in a business that does not pay.

The theory of a minimum wage based on the cost of living is flatly inconsistent with the facts of daily life and preparation for any occupation. At what age or point is a beginner, or apprentice, to receive the full legal wage? Is no boy, or apprentice, to be allowed to receive a partial reward till he is a full-fledged adult workman? How about the woman, who, in the economic role of domestic labor, knits stockings in odd hours in order to add a little to the family income—shall she receive nothing if not the full legal wage? Shall the boy, or even a young lawyer just entering an office, be forbidden to receive the small stipend of the preparatory period?

Suppose it were required by law to pay shop-girls $8.00 a week instead of $5.00 on the ground that the insufficient $5.00 leads to vice; then, since no ordinary business would pay $8.00 unless it were earned, those who did not earn $8.00 would inevitably be dropped from employment without even the help of $5.00 to save them. If $5.00 is no protection from vice, how much less is no wages at all? This proposal of a minimum wage is directly opposed in practice to the very self-interest of the girls themselves.

It is crass to try to remedy wages which are admittedly too low by fixing a legal minimum wage, which can never be enforced unless private business establishments are to be regarded as state institutions. In a state factory, wages may possibly be determined by law, but not in open competitive business conditions, where the supply of labor has as much influence on wages as the demand. If the supply of women wage-earners converges on only certain kinds of work, wages will be lowered by the very large supply of the workers.

There is no exit by this door of legal enactment as to the amount of wages.

The true and immediate remedy is the creation of ready means by which the industrial capacity of the wage-earning women will be increased. The wrong situation—of which low wages, possible starvation, and the temptation to vice are only symptoms—is due primarily to the fact that women thrown on their own resources know no trade and crowd each other in the market for unskilled labor. The remedy lies in the creation of places of instruction where any woman (no matter how poor) shall be taught a trade and have skill given her by which she can obtain a living wage.

The remedy lies in preventing a congestion of unskilled feminine labor by industrial education. There is no other rational or permanent or human way out of the present wretched situation, if we have the real interest of the workers at heart—and are not interested chiefly in getting some cheap political notoriety.

This conclusion applies to men as well as to women. Is not a skilled carpenter worth more than a blunderer? In any business, does not every one agree that it is fair to give a very energetic, live, active, skillful salesman more than a stupid? If he is skilled he earns more, because he brings in more business. That being settled we do not fix his wages on what it costs him to live. He has a right to spend his income as he pleases. Hence, if we were to adopt the theory of the minimum wage we should be adopting a new theory of wages, which would justify the refusal to pay higher wages based on efficiency.

The only real permanent aid to low wages is to increase the productivity and skill of the persons at the bottom. Instead of talking of such injurious palliatives as minimum wages, create institutions at once where those persons can be given a trade or training for a gainful occupation. The cry for a minimum wage is evidence of the industrial incapacity, the lack of producing power, in masses of our people. The concrete ways of increasing the productive power of each man and woman are not unknown. Moreover, the captain of industry can introduce carefully worked-out plans for helping his operatives to rise in life; to better conditions by welfare work; to encourage savings and thrift; to introduce the stimulus of profit sharing; and above all, establish civil-service methods devised to pick out and promote the promising youth so that the path from the bottom to the top is open to every employee. Under unrestricted competition, there will be seen the inevitable results of 'natural monopoly' by which superiority comes to its own, and wages are in some proportion to productive power.

279. Wage-Settlement by External Authority[29]

BY S. J. CHAPMAN

The fundamental objection to the settlement of wages by external authority is easily formulated. New needs are constantly arising; and it is partly by the spontaneous emergence of new needs, changes in the proportions of needs, and the satisfaction of new demands, that society progresses. It will not be inferred from this statement, of course, that caprice and vacillation in demand are good. It is to the immediate gain of the community that production should react speedily upon the fresh calls made upon it, since thereby the most satisfaction is elicited from a given quantity of producing power. Further, it is to the ultimate advantage of the community that this rapid response of society on its productive side to society on its consumptive side should be forthcoming, since thereby imagination is quickened and the way is laid open for further progress. By the satisfaction of old wants scope is given for the expression of new wants. Progress does not mean merely change of wants, apart from the character of the change, but change is so essential as to be a presupposition of progress. The general disappointment of aspirations saps social vitality. Again, a great economy results from international specialism following the divisions marked out by national differential advantages for the production of certain goods. These relative advantages are variable, and therefore the industries of a country with much foreign trade will wax and wane relatively if the results are to be procured from its productive power.

Now rapid alterations in the industrial field, in response to the varying circumstances that we have outlined, can be secured only if public demand is transferred direct to capital and labour through the medium of the employers' demand for them. If it is, the industry that should contract naturally contracts because it offers small profits and wages below the normal level, while the business that should expand naturally expands on account of its exceptional remunerativeness to all factors which engage in it. Once unlink the existing close connections between public demand and wages, and a large proportion of the nation's productive power will be regularly misapplied, unless or until settlement at comparative stagnation is induced. Moreover, the best will not be made of the aptitudes and tastes of the individuals of whom society is composed. No arbitrator can in the nature of things possess sufficient knowledge of the demand for, and supply prices of, labour to enable him to declare the relative wages that are best in the long run for the community as a

[29]Adapted from *Work and Wages,* II, 260–264. Copyright by Longmans, Green & Co. (1904).

whole. The chances are that in many of the awards serious mistakes will be made; after some time, it is true, the awards are revised, but it is then too late for all the damage inflicted to be repaired, and there is again no surety that the errors will be corrected. This is no plea for stringent *laissez faire;* State intervention in the interests of life and health, and combinations to render more effective the bargaining power of labour and the demand of labour for pleasant conditions, are quite different in principle from the surrender to courts, which can never have before them the data to enable them to do the right thing in the settlement of relative remunerations as between the numerous classes of labour and other factors in production. To use an analogy, the problem is to deduce from a person's constitution how much food he should take each week for the next six months. Who shall say? For who shall deduce from the parts of the organism their joint needs now and for the next few months? Fortunately, nature solves the riddle by giving to such organisms appetite. In the social organism the analogous regulator is to be found in individual demands.

There are two further dangers. The one is that, though some State action may give scope to individual initiative—by which we advance—another kind of State action may weaken it. The other danger arises from the fact that distribution is so linked to production that complexity in the one necessitates complexity in the other. If society is incapable of assuming a more intricate system of distribution, further complication for the improved economic working of the productive system is retarded. Industrialism is relatively simple in form and limited in extent in the Australasian Colonies. Agriculture is the chief occupation, and this being untouched by the arbitration laws is a vent for any labour or capital driven out of the industries. Hence the settlement of wages by boards with power may not very seriously diminish prosperity. But it would in a country with more involved productive arrangements, where the loophole of escape from onerous decisions was less adequate. Progress would be impeded until the artificial system was repudiated, and the old lesson that had been forgotten of the self-settlement of wages under simple conditions had been learned afresh.

Besides, lastly, there is the unwholesomely close association between politics and self-interest. What would be the state of democracy in the next generation if wage-earners regarded the government as one of the chief arbiters of wages, as they might easily do when, according to their experiences, wages had been settled, as a rule at least, if not invariably, in a Court, State instituted and State supported, the awards of which were enforced by the State?

280. A Minimum Wage for Immigrants[30]

BY PAUL U. KELLOGG

My plea is to draft into our immigration law the provision that no immigrant who arrives here after a specified date shall be permitted to hire out to a corporate employer at less than a living wage, say $2.50 or $3.00 a day—until five years are elapsed, and he has become a naturalized citizen. When he is a voter, he can sell his American workright for a song if he must and will, but until then he shall not barter it away for less than the minimum cash prize, which shall be determined as a subsistence basis for American family livelihood.

It would be neither the intent nor the result of such legislation to pay newcoming foreigners $3.00 a day. No corporation would hire Angelo Lucca and Alexis Spivak at $3.00 as long as they could get John Smith and Michael Murphy and Karl Schneider for less. It would be the intent and result of such legislation to exclude Lucca and Spivak and other "greeners" from our congregate industries, which beckon to them now. It would leave village and farm and country open to them as now. And meanwhile, as the available labor supply fell off in our factory centers, the wages paid Smith, Murphy, Schneider, and the rest of our unskilled labor would creep up toward the federal minimum.

First a word as to the constitutionality of such a plan. It would be an interference with freedom of contract; but the contract would lie between an alien and a corporation; between a non-citizen and a creature of the state. I have the advice of constitutional lawyers that so far as the alien workman goes the plan would hold as an extension of our laws regulating immigration. On the other hand, the corporation-tax laws afford a precedent from setting off the corporate employer and regulating his dealings.

For three special reasons my belief is that the general enforcement of such a law would be comparatively simple. Sworn statements as to wage payments could be added to the data now required from corporations under the federal tax law. This would be an end desirable in itself. In the second place every resident worker would report every violation that affected his self-interest or threatened his job. For my third reason I would turn to no less a counsel than Mark Twain's *Pudd'n Head Wilson.* With employment report cards half a dozen clerks in a central office in Washington

[30]Adapted from "Immigration and the Minimum Wage," in the *Annals of the American Academy of Political and Social Science,* XLVIII, 75–77. Copyright (1913).

could keep tab on the whole situation by means of finger prints. Finger prints could be taken of each immigrant on entry; they could be duplicated at any mill gate or mine entry by the employer, filed and compared rapidly at the Washington bureau.

As compared with joint minimum wage boards affecting men and women alike, as do those of Australia and England, the plan would have the advantage of not being democratic. The workers themselves would not take part in its administration. And the plan would have the signal advantage of being national, so that progressive commonwealths need not penalize their manufacturers in competing with laggard states.

As compared with the literacy test, the plan would not shut America off as a haven of refuge and would not, while it was under discussion, range the racial societies and the internationalists alongside the steamship companies and the exploiters of immigrant labor. And it would have an even more profound influence on the condition of life and labor.

What are the positive benefits to be expected from such a program?

1. It would gradually, but irresistibly, cut down the common labor supply in our industrial centers.

2. Once the unlimited supply of green labor was lessened in these industrial centers, a more normal equilibrium would be struck between common labor and the wages of common labor. Now it is like selling potatoes when everybody's bin is full.

3. It would tend to stave off further congestion in the centers of industrial employment and give us a breathing spell to conquer our housing problems and seat our school children.

4. It would shunt increasing numbers of immigrants to the rural districts and stimulate patriotic societies to settle their fellow countrymen on the land.

5. It would tend to cut down the accident rate in industries where "greeners" endanger the lives of their fellows.

6. It would cut down the crowd of men waiting for jobs at mill gates and street corners, correspondingly spread out rush and seasonal work, and help along toward the time when a man's vocation might mean a year-long income for him.

7. It would give resident labor in the cities a chance to organize at the lower levels and develop the discipline of self-government.

8. It would put a new and constructive pressure on employers to cut down by invention the bulk of unskilled occupations, the most wasteful and humanly destructive of all work.

9. It would bring about a fair living, a household wage, in such routine and semi-skilled occupations as remained.

10. It would tend to change mining settlements and mill towns from sleeping and feeding quarters into communities.

G. COMPULSORY ARBITRATION AND WAGES

281. Arbitration in New Zealand[31]

BY HUGH H. LUSK

The New Zealand Arbitration Law was the first attempt ever made on anything like a national scale to ensure something like justice for the workers, while at the same time it grappled with the evil that had been an increasing one in every civilized country for half a century. It was recognized that every form of warfare—whether between nations, classes, or individuals,—was in its nature an appeal to force, and not to fair-play or justice. It was, in fact, an appeal to the higher intelligence, as well as to the common-sense, both of workers and employers; and it said much for the innate common sense of the classes for whose benefit it was in the first place intended, that they were willing at least to give it a trial.

The Arbitration Law of New Zealand begins with a full recognition of the principle of Trades Unionism, which it makes use of as the basis of the new law. It provides that any Union containing a certain number of members may avail itself of the benefits of the statute by registering the association as one subject to the provisions of the law. The only compulsory feature of the statute is that as long as the association and its members remain registered they shall be subject to the provisions of the statute.

These provisions are aimed directly at the prevention of industrial warfare by making it a punishable offence for any body of workers to leave off work in concert, for the purpose of compelling the employers in any trade or employment to agree to a demand for higher wages, or any other alteration in the conditions of their employment. On the other hand it is equally an offence for any association of employers to discontinue the employment of their workers for the purpose of compelling their agreement to any change in their rates of payment, in their hours of work, or to any other proposed change in the existing conditions of employment. Instead of a resort either to the strike or the lock-out, the law provides that whenever a dispute arises in any trade in which either the workers or the employers are registered as an association under the provisions of the statute, either party may at once call in the assistance

[31]Adapted from *Social Welfare in New Zealand,* 74–88. Copyright by Sturgis & Walton (1913).

of the local Board of Conciliation, whose duty it is to meet the representatives of the parties, and endeavour by all reasonable means to bring about an agreement on the matters in dispute. In case conciliation should prove ineffectual, however, it becomes the duty of the conciliator to refer the question to the Arbitration Court without delay. This court consists of five members in all, two of whom are chosen by the votes of the registered associations of the workers, and two by those of the registered associations of employers, while the fifth member of the Court is one of the judges of the Supreme Court, who is also President of the Arbitration Court, and is from time to time appointed by the Government to this particular office. The decisions of the Court are declared by the statute to be final, and subject to no appeal, except on the single ground that the question dealt with is beyond the powers given to the Court.

The judgments of the Arbitration Court may be enforced either by fines, levied on the property of the Associations, or of individual members; or by imprisonment of the officers, or of members of such associations as may be declared guilty of contempt of the Arbitration Court.

The methods by which the New Zealand Arbitration Court has arrived at its conclusions are probably without precedent in the history of modern commercialism. Its first duty in all cases where the amount of wages was in dispute was to ascertain what it should cost the average worker, with a wife and family, to live in reasonable comfort and respectability. Its second duty was to determine how much the profits of the employers in an ordinary year would enable them to pay. The first question was one of national policy. The second question was one of fair-play and ordinary justice, as between man and man; and to form a fair and intelligent conclusion it was necessary to learn a good many things that had been regarded in the past as the business of the employers, and of nobody else.

It may be said that the answer to the question of the amount of wages needed to secure a decent living for the workers and their families was, after all, a matter of opinion, and possibly even of prejudice. Fortunately there was in New Zealand, as, indeed, there is probably in every country a court of appeal on matters of opinion that may generally be trusted to take a view of such questions that is tolerably fair. The New Zealand statute has provided for such an appeal, by providing that the proceedings of the Arbitration Court should in all cases be conducted in public, so that the evidence given should be open to the press and known to the people. In different communities, it is true the public opinion thus formed might differ considerably; but in every country, it may be said with confidence, the opinion thus formed would exercise a powerful influ-

ence on a court of arbitration. What the Court had to do, therefore, was in the first place to decide on the lowest reasonable living wage—and this was practically the same in every trade or employment. This lowest living standard, as it did not depend on the profits of the business, was not affected by the question either of capital invested, or of the conditions of the trade.

The question of the minimum wage, however, was only a part, and a small part, of the problem with which the Arbitration Court had to deal. While it was clear that nobody could be allowed to pay less than a living wage to those employed, the question of justice demanded a good deal more than this before it could be said to be fairly settled. The old idea that the man who found the money should have everything, and the man who found the labour as little as possible, had been abandoned in New Zealand; the problem which the Court had to solve was the somewhat indefinite one—what was fair? To enable this to be done the law provided that the Court might call on the employers, in any dispute as to wages, to produce the books containing the accounts of their business, and to show exactly what capital was invested in it, and what profits had been earned. The task of the Court was by no means an easy one. Even when the books of a business had been produced, and the capital invested, and the profits made had been ascertained, the question remained what ought the employers to give out of the profits to the workers, without whose assistance no profits could have been earned? What, as a matter of fact, the Arbitration Court of New Zealand has done during the sixteen years of its existence has been to come to some conclusion that seemed fair in each case. The principle of a real partnership has been acknowledged by the Court, but the shares due to the partners have been matters of opinion, and the awards of the Court have, as a consequence, always been open to criticism by one or other party to the dispute.

There have been many such criticisms, both in the colony itself and elsewhere; but as a rule the parties most nearly concerned have admitted that the decisions of the Court were conceived in a spirit of fair-play as between the parties. The law has now been in force during sixteen years, and it has been accepted by both employers and employed as the controlling force of the industrial life of nearly a million people of our own race. Amendments have from time to time been made in the law, as new features have appeared that seemed to call for regulation, but in all essentials the law that was conceived in a spirit of fair-play and justice—recognizing equally the rights of Labour, Capital, and of the people at large, sixteen years ago, remains in force today, and, like all the other laws of New Zealand, is enforced without fear or favour.

282. Compulsory Arbitration in Theory and Practice[32]

BY JAMES EDWARD LE ROSSIGNOL AND WILLIAM DOWNIE STEWART

There is a pretty well-defined theory in justification of compulsory arbitration in the minds of those who favour that method of settling industrial disputes. The competitive system, in this view, has resulted in two great evils; sweating and strikes. Under sweating the workers receive less than enough to secure a decent subsistence for a human being, and the strike is a form of private war in which the strongest win, not those who have justice on their side, and which causes great inconvenience to the public, who are a third party in every strike. All this evil and injustice should be done away with by an appeal to a court.

On the surface the theory appears to be highly reasonable, but when put into practice serious, if not fatal, difficulties arise. One of these has to do with the discovery of specific principles of justice; the other with the enforcement of awards supposedly just.

The theory of fair wages that appears to prevail is the doctrine of the living wage, stated both in its negative and its positive form. Stated negatively, the theory holds that extremely low wages, such as are found under the sweating system, are not fair wages, because insufficient to afford a decent living according to the colonial standard. Stated positively, a fair wage is a wage which is sufficient to give the worker a decent living according to the colonial standard.

Other difficulties arise when the theories are applied to actual cases. For example, a wage which would be quite sufficient for a single man might be inadequate for a married man, and should vary with the size of his family and their ability to contribute to their own support. Again, a living wage for a skilled worker must be higher than that for a common labourer, since his standard of living is higher. This arises from the fact that skilled labourers are scarce, but this introduces another complicating factor, the supply of labour, which, in densely populated countries, threatens to destroy, not only the theory, but the possibility of a living wage.

These and other complications prevent the creation of a body of legal principles defining and explaining the nature of fair or reasonable wages, but do not prevent the Court from bearing in mind the desirability of keeping the customary standards of colonial

[32]Adapted from *State Socialism in New Zealand,* 238–247. Copyright by Thomas Y. Crowell & Co. (1910).

life from falling, and the equal or greater desirability of raising those standards as much as possible. The doctrine of a living wage, then, is not an established legal principle, but an ideal toward which people may strive.

In practice, the awards appear to be based on two main principles; first the desire and intention of the Court to secure a living wage to all able-bodied workers; second, the desire of the Court to make a workable award, that is, to grant as much as possible to the workers without giving them more than the industry can stand. In doing this regard must be had to the prosperity of a given industry as a whole, if not to the profits of individual employers. It is usually taken for granted that no reduction will be made in the customary wages in any industry, and, in times of depression, this might be regarded as a third regulative principle. Again, it is the custom of the unions, in formulating their disputes, to demand more than they expect to get, knowing that, in the worst case, they will lose nothing. So frequently has this been done that one might almost lay down a fourth regulative principle, the principle of splitting the difference.

The rigidity of system which is characteristic of the railway rates seems to be taking possession of the regulation of wages also. When the awards were few in number, it was easy to make a change without any serious disturbance to industry; but now that they are numerous and their scope has been widely extended, it is difficult to make a change in one without making many other changes, for the sake of adjusting conditions of labour to the changing conditions of business.

Another stumbling-block in the way of advance in wages is the inefficient or marginal or no-profit employer, who, hanging on the ragged edge of ruin, opposes the raising of wages on the ground that the slightest concession would plunge him into bankruptcy. His protests have their effect on the Arbitration Court, which tries to do justice to all the parties and fears to make any change for fear of hurting somebody. But the organized workers, caring nothing for the interests of any particular employer, demand improved conditions of labour, even though the inefficient employer be eliminated and all production be carried on by a few capable employers doing business on a large scale and able to pay the highest wages. This is not to say that even the most efficient employers could afford to pay wages much in excess of those now prevailing.

From such a statement as this it is but a step to the position that wages are determined chiefly by economic laws, and that the Arbitration Court can cause, at most, very slight deviations from the valuations of the market.

It is not easy to show that compulsory arbitration has greatly benefited the workers of the Dominion. Sweating has been abolished, but it is a question whether it would not have disappeared in the years of prosperity without the help of the Arbitration Court. Strikes have been prevented, but New Zealand never suffered much from strikes, and it is possible that the workers might have gained as much, or more, by dealing directly with their employers as by the mediation of the Court.

It is a common opinion in New Zealand that the increase in the cost of living has been due largely to the high wages and favourable conditions of labour fixed by the Arbitration Court, but so widespread a result cannot have been due chiefly to local causes.

Manufacturers complain that the awards have been so favourable to the workers as to make it difficult to compete with British and foreign manufacturers, and demand that either the arbitration system be abolished or that they be given increased protection by increased duties on imported goods. It is claimed that the growth of manufactures has not kept pace with the growth of population and the importation of manufactures from abroad.

There is such agreement among manufacturers as to the effect of compulsory arbitration in increasing the cost of production that their statements cannot be lightly dismissed, especially as many unbiased writers concur in the opinion.

Unquestionably, manufacturers, with the exception of the great industries which work up raw materials for market, are not doing any too well, but it is not likely that compulsory arbitration is the chief cause of this. The high wages which manufacturers have to pay are due chiefly to industrial conditions which always prevail in a new, thinly populated country with great natural resources awaiting development.

XI

THE PROBLEMS OF TRADE UNIONISM

You have doubtless heard the statement, "In America there is no class-conscious proletariat; for the American laborer sees in himself a capitalist in embryo." When our country possessed an open frontier, undeveloped natural resources, opportunities for the ready acquisition of property, and a rising standard of living, a vigorous protest against conventional social arrangements was not to be expected. But with the passing of the frontier, the restriction of opportunity, and the increasing tendency toward social stratification, sentiments are changing. As laborers are convinced in increasing numbers that they are permanently of the "proletariat," they express themselves more vigorously against a "system" that makes inequalities possible. This, however, hardly threatens a "class-conflict" in the immediate future; our class and group lines run in too many directions and cut each other at too many angles for that.

The "social unrest" is much more closely associated with group than with class interests. There are many groups of large capitalists and of skilled laborers. There exist accordingly many types of "capitalism" and even more of "unionism." Small capitalists and unskilled laborers alike are without consciously developed group feelings and vehicles for the expression of these feelings. It is those who are best off, those who appeal least to our sympathies, whose strength lies in union. However, since these labor groups are everywhere in contact with much the same type of "capitalist groups," they have much the same prejudices, sentiments, and theories. Fighting as they are, each for self, they are creating a common body of labor theory, and their respective interests are impelling them to a certain amount of common activity. The like is true of the capitalists.

A study of the appraisals placed upon unionism by men whose relations to it are very different, such as those of an employer, a unionist, and a college president given below, show fundamental differences as to the value of such an institution. Perhaps nothing connected with "the labor movement" is harder to understand—or more necessary to an appreciation of the problems of trade unionism—than the theories and attitudes—the viewpoints if you will—of capitalists and laborers. They are as conflicting and contradictory to an outsider as they are obvious and axiomatic to those who hold them. The capitalist, concerned with the "business" side of industry, easily acquires an understanding of the importance of basic institutions. He accordingly thinks in terms of legality, assumes the schemes of values surrounding him to be absolute, surrounds "property," "contract," and their complements with an air of sanctity, regards "the constitution" as supreme, and puts his full trust in the integrity of the courts. In determining the relations of employer and employees, he relies upon the efficacy of free competition and individual bargaining, insists upon his right to prescribe the conditions of employment, and believes quite firmly that identical legal rights guarantee equality of treatment to the two parties.

The laborer, concerned with the technical side of the process, acquires a common-sense philosophy of force; he believes in fatalism; he thinks that the employer has a more strategic position in bargaining than he possesses; he is convinced that capital concentrated under corporate ownership can be fought only by "united" labor. Unity in the labor group, accordingly, is the one thing that is necessary to an improvement in conditions. To secure it he thinks it necessary to insist uncompromisingly upon the "principle of

uniformity"; upon a control of apprenticeship, of hiring and discharge, of technique, of materials—in short of all that is necessary to secure in the larger sense the absolutely necessary "closed shop"; and particularly upon collective bargaining. This attitude serves to make quite intelligible such peculiar phenomena as restriction of output, taboos upon non-union materials, and the intense hatred of "scabs."

The antithesis between the two systems finds a clear expression in "scientific management." The employers, who are responsible for the many innovations which masquerade under this catholic name, aim at giving to management the control of technique, the selection of men properly qualified for various productive tasks, the establishment of a close connection between the individual's work and his pay, and inferentially they aim at individual bargaining. The laborers oppose it because it strips them of the control of technique, of the right to hire and discharge laborers, of the prescription of the conditions of employment—of that "uniformity" which is essential to collective activity.

Industrial conflict, which is the most spectacular side of the trade-union movement, is to be explained very largely in terms of "collective bargaining." The opposing parties make use of quite similar weapons: the strike, for example, finds its counterpart in the lockout, and the boycott in the blacklist. Each of these, curiously enough, resolves itself into the collective exercise of a right which in the individual case is legally recognized. It is not surprising that law, lacking an adequate social philosophy, and accustomed to discover society by aggregating individuals, should have been put to some sore shifts in dealing with these collective weapons. The use of these is usually part of a protracted campaign prosecuted for many years, using a varied strategy, and employing many different instruments.

In the last ten years the strategic position of the employers has been greatly strengthened, that of the laborers correspondingly weakened. This is partly due to the greater staying power of capital. In part it is due to the close correspondence between the interests of the employers and the natural development of an individualistic social system. This is evident in the undermining of the powers of unionism by a long succession of court decisions. But to a considerable extent it is due to the effectiveness of employers' associations. Because of their smaller numbers, employers better than laborers can make use of devices which lack full legal approval. The blacklist, for instance, can be effectively used where its very publicity prohibits the use of the boycott. Likewise, through "spies," employers can get advance information of the strategy of an anticipated industrial conflict. It is beyond the power of unions to get any such information. The association has, through careful study, reduced strike-breaking almost to an exact science. The employers have liberally used funds to "educate" the public to the evils of those practices of the unions which are most inimical to them. Immigration, too, has stood them in good stead.

This weakening in the strategic position of labor is producing some very important modifications in our social institutions. It is forcing "labor into politics." The "exemption clauses" of the Clayton act are but earnests of what we may eventually expect. Organized labor at the polls is far stronger than organized capital. If its theory is forced into our institutional system, our whole social life will be profoundly affected. Another form in which it is seeking expression is through such subtle and harassing methods as "the intermittent strike" and sabotage. These devices of "revolutionary unionism" are making their way into some very well-established unions. It need not be said that back of these methods is an attitude which insists upon the welfare of the small group even at the expense of society as a whole.

Our study of its more conspicuous features must not allow us to overlook the importance of unionism as an agency of social control. The information, theories, and prejudices which the laborers acquire from their unions

influence profoundly their thought and action upon non-industrial as well as upon industrial matters. The unions can eliminate from the lives of their members much of economic insecurity, can do much to establish better working conditions, and can set models for the state to use in improving the conditions of unorganized labor. It is more than possible that eventually they can, through the trade agreement, create permanent positions and equities in property for labor, and that these will, under the guise of having been established under free contract, be recognized by the law. Our gravest concern is lest, in seeking the interest of the group, the interests of society be completely lost sight of.

A. GROUP AND CLASS CONSCIOUSNESS

283. Bourgeoisie and Proletariat[1]

BY WERNER SOMBART

Capitalism is based on the private ownership of all commodities, and therefore also of those which are required for production—raw material, machinery, factories, land. Historic development has brought it about that production in these days is on a large scale; that is to say, it is carried on by the combination of many laborers under uniform direction. Thus, a thousand men are united to work a mine or a machine factory, and hundreds to spin or weave in some big establishment. But the same development has also brought it about that those who work together in this way have not the same rights with regard to the means of production. Some own these means of production, and therefore become the directing factors in the work of production, and also owners of the commodities produced. The others, who form the great mass of the workers, are shut out of possession of the means of production. Hence it follows that, in order to live, they are forced to put their labor power at the disposal of those who do possess the means of production, in return for a money payment. This comes about by way of a wage contract, wherein the laborer, who possesses naught but his labor, agrees with the owner of the means of production, who is on that account the director of production, to undertake to render a certain amount of work in return for a certain amount of pay.

When we remember that all production depends on the combination of labor and the material means of production, then the capitalist system of production differs in the first instance from other systems in that the two factors of production are represented by two separate groups, which must meet and combine if a useful product is to ensue. In this the capitalist system differs, from, let

[1]Adapted from *Socialism and the Social Movement* 3-8. Published by E. P. Dutton & Co. (1908).

us say, the craft organization of industry, where the laborers were at the same time the owners of the means of production. But it differs likewise from slavery in that in the capitalist system the combination of the two groups comes about by free contract in what is known as the wages contract.

The capitalist organization of society is characterized by the race for profit and by a peculiar form of mental activity in individuals which I call "economic rationalism." All economic activities are at bottom directed towards the increase of the money which is put into production, or, in technical language, towards the profitable investment of capital. To this end, all the thoughts of the capitalists or owners of the means of production, or of agents paid by them, are occupied day and night in an almost feverish restlessness in order to bring about the most practical and rational shaping of economic and technical processes.

The social class which stands for the interests of the capitalist system is the bourgeoisie, or middle class. It is made up, in the first place, of capitalist undertakers, and in the second, of a large number of people whose interests are similar to those of the capitalist undertakers. I am thinking of the following elements: (1) All those who are economically independent (or who would like to be so), and are intent on profit-making, and who, moreover, desire a free legal system favorable to profit-making. That would include many shopkeepers, property-owners, agents, stock-jobbers, and so on, and also the more modern of peasant proprietors. (2) All those who are not economically independent, but are associated with the capitalist undertaker in his activities, mostly as his representatives, and who, as a rule, participate in his economic success. That would include paid directors of companies, managers, foremen in large businesses, and people like them.

The class at the opposite pole to this—the one cannot be thought of without the other—I have called the proletariat. In order to get a true conception of this class, we must free ourselves from the picture of a ragged crowd which the term brought to mind before we read Karl Marx. The term "proletariat" is now used in a technical sense to describe that portion of the population which is in the service of capitalist undertakers in return for wages, and elements akin to them.

The free wage-earners form the bulk of this class—all such persons as are employed in capitalist undertakings, leaving out, of course, those mentioned above as belonging to the bourgeoisie because their interests are bound up with the capitalist system.

I have already pointed out that in order to get a true conception of the proletariat we must give up the idea of a ragged crowd. Indeed, the life of the proletarian is not always intolerable. Absolute distress is in no way a special characteristic of the class, though, to be sure, there are within it innumerable instances of want. But few proletarians are as badly off as the Russian peasant, or the Chinese coolie, or the Irish tenant, none of whom belong to the proletariat. Many a wage-earner, even in Europe, earns more than a university teacher, and in America the average income of this class falls not much below the maximum salary of an extraordinary professor in Prussia.

284. The Historical Basis of Trade Unionism[2]

BY SIDNEY AND BEATRICE WEBB

The Trade Union arose, not from any particular institution, but from every opportunity for the meeting together of wage-earners of the same trade. Adam Smith remarked that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." And there is actual evidence of the rise of one of the oldest Trade Unions out of a gathering of the journeymen "to take a social pint of porter together." More often it is a tumultuous strike out of which grows a permanent organization. Instances are on record in which a number of laborers who have become accustomed to visit public houses have become the nucleus of organization. More than once the journeymen in a particular trade declared that, "It has been an ancient custom in the kingdom of Great Britain for divers Artists to meet together and unite themselves into societies to promote Amity and true Christian Charity," and established a sick and funeral club, which invariably has proceeded to discuss the rate of wages, and insensibly has passed into a trade union with friendly benefits. And if the trade is one in which the members travel the result has been a National Trade Union.

But this does not explain why the continuous organizations of wage-workers came as late as the eighteenth century? The essential cause of this was the revolution in industry which came at this time. When such unions arose, the great mass of the workers had ceased to be independent producers, and had passed into the condition of life-long wage-earners. Such unions came after "the definite separation between the functions of the capitalist and

[2]Adapted from *The History of Trade Unionism,* 21–37. Published by Longmans, Green. & Co. (1894).

the workman, or between the direction of industrial operations and their execution in detail."

It is often assumed that the divorce of the manual worker from the ownership of his tools resulted from the introduction of machinery and the factory system. Were this true, we should not find Trade Unions earlier than factories. Yet such combinations in England preceded the factory system by half a century, and occurred in trades carried on exclusively by hand labor. Some crafts lent themselves to an advantageous division of labor. Among these there is particularly to be mentioned that of tailoring. Because of the special skill required for tailoring for rich customers, the most proficient tailors were separated from the rest of the journeymen, and became practically a separate social class. This differentiation was promoted by the increasing need of capital for successfully beginning business in the better quarters of the metropolis. By 1700 we find the typical journeyman tailor in London a lifelong wage-worker. It is not surprising, therefore, that one of the earliest instances of permanent Trade Unionism occurred in that trade. Another instance is that of the woolen workers in the West of England. Again, it is not peculiar that in the year 1790 the Sheffield employers found themselves obliged to take concerted action against the "scissors-grinders and other workmen who have entered into unlawful combinations to raise the price of labor." But the cardinal examples of the connection of Trade Unionism with the divorce of the worker from the instruments of production is seen in the rapid rise of trade combinations on the introduction of the factory system.

It is easy to understand how the massing together in factories of regiments of men, all engaged in the same trade, facilitated and promoted the formation of workmen's societies. But the rise of permanent trade combinations is to be ascribed to the definite separation between the functions of the capitalist entrepreneur and the manual worker. It has become a commonplace of Trade Unionism that only in those industries in which the worker has ceased to be concerned in the profits of buying and selling can effective and stable trade organizations be maintained.

285. The Organization of the Ill-paid Classes[3]

BY CHARLES H. COOLEY

It is quite apparent that an organized and intelligent class-consciousness in the hand-working people is one of the primary needs

[3]Adapted from *Social Organization,* 284–289. Copyright by Charles Scribner's Sons (1909).

of a democratic society. In so far as this part of the people is lacking in a knowledge of its situation and in the practice of orderly self-assertion, a real freedom will also be lacking, and we shall have some kind of subjection in its place; freedom being impossible without group organization. That industrial classes exist cannot be well denied, and existing they ought to be conscious and self-directing.

The most obvious need of class-consciousness is for self-assertion against the pressure of other classes, and this is both most necessary and most difficult with those who lack wealth and the command over organized forces which it implies. In a free society, especially, the Lord helps those who help themselves; and those who are weak in money must be strong in union, and must also exert themselves to make good any deficiency in leadership that comes from ability deserting to more favored classes.

That the dominant power of wealth has an oppressive action, for the most part involuntary, upon the people below, will hardly be denied by any competent student. The industrial progress of our time is accompanied by sufferings that are involved with the progress. These sufferings fall mostly upon the poorer classes, while the rich get a larger share of the increased product which the progress brings.

Labor unions have arisen out of the urgent need of self-defence, not so much against deliberate aggression as against brutal confusion and neglect. The industrial population has been tossed about on the swirl of economic change like so much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions. Against this state of things the higher class of artisans have made a partly successful struggle through co-operation in associations, which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

Besides their primary function of group-bargaining, unions are performing a variety of services hardly less important to their members and to society. In the way of influencing legislation they have probably done more than all other agencies together to combat child-labor, excessive hours, and other inhuman and degrading kinds of work, also to provide for safeguards against accident, for proper sanitation, for factories and the like. In this field their work is as much defensive as aggressive, since employing interests, on the other side, are constantly influencing legislation and administration to their own advantage.

Their functions as spheres of fellowship and self-development is equally vital and less understood. To have a we-feeling, to live shoulder to shoulder with one's fellows, is the only human life; we all need it to keep us from selfishness, sensuality, and despair, and the hand-worker needs it even more than the rest of us. Usually without pecuniary resources and insecure of his job and his home, he is, in isolation, miserably weak and in a way to be cowed. The union makes him a part of a whole, one of a fellowship. Moreover, the life of labor unions and other class associations, through the training which it gives in democratic organizations and discipline, is perhaps the chief guarantee of the healthy political development of the handworking class. That their members get this training will be evident to anyone who studies their working, and it is not apparent that they would get it in any other way.

In general no sort of persons mean better than hand-laboring men. They are simple, honest people, as a rule, with that bent toword integrity which is fostered by working in wood and iron and often lost in the subtleties of business. Moreover, their experience is such as to develop a sense of the brotherhood of man and a desire to realize it in institutions. Not having enjoyed the artificial support of accumulated property, they have the more reason to know the dependence of each on his fellows. Occasionally outbreaks of violence alarm us and call for prompt enforcement of law, but are not a serious menace to society, because general sentiment and all established interests are against them; while the subtle, respectable, systematic corruption by the rich and powerful threatens the very being of democracy.

The most deplorable fact about labor unions is that they embrace so small a proportion of those who need their benefits. How far into the shifting masses of unskilled labor effective organization can extend only time will show.

286. Types of Unionism[4]

BY ROBERT F. HOXIE

A penetrating study of the union situation past and present seems to warrant the recognition of functional types quite distinct in their general characteristics. It is true that these functional types do not in practice represent exactly and exclusively the ideals and activities of any particular union organization or group. That is to say, no

[4]Adapted from "Trade Unionism in the United States: General Character and Types," in the *Journal of Political Economy*, XXII, 211–216 (1914).

union organization functions strictly and consistently according to type. Yet as representing fairly distinct alternative programs of union action and as guides to the essential character and significance of the diverse organizations and groups included in the heterogeneous union complex, these functional types apparently do exist and are of the most vital concern to the student of unionism. There are seemingly four of these distinct types, two of which present dual variations.

The first and perhaps most clearly recognizable functional type may be termed *business unionism*. Business unionism appears most characteristically in the programs of local and national craft and compound craft organizations. It is essentially trade-conscious rather than class-conscious. That is to say, it expresses the viewpoint and interests of the workers in a craft or industry rather than those of the working class as a whole. It aims chiefly at more here and now for the organized workers of the craft or industry, in terms mainly of higher wages, shorter hours, and better working conditions, regardless for the most part of the welfare of the workers outside the particular organic group, and regardless in general of political and social considerations except in so far as these bear directly upon its own economic ends. It is conservative in the sense that it professes belief in natural rights and accepts as inevitable, if not as just, the existing capitalistic organization and the wage system as well as existing property rights and the binding force of contract. It regards unionism mainly as a bargaining institution and seeks its ends chiefly through collective bargaining supported by such methods as experience from time to time indicates to be effective in sustaining and increasing its bargaining power. Thus it is likely to be exclusive, that is, to limit its membership by means of the apprenticeship system and high initiation fees and dues, to the more skilled workers in the craft or industry or even to a portion of these. In method, business unionism is prevailingly temperate and economic. It favors voluntary arbitration, deprecates strikes, and avoids political action, but it will refuse arbitration and resort to strikes and politics when such action seems best calculated to support its bargaining efforts and increase its bargaining power. This type of unionism is perhaps best represented in the programs of the railway brotherhoods.

The second union functional type seems best designated by the terms *friendly or uplift unionism*. Uplift unionism, as its name indicates, is characteristically idealistic in its viewpoint. It may be trade-conscious or broadly class-conscious, and at times even claims

to think and act in the interest of society as a whole. Essentially it is conservative and law-abiding. It aspires chiefly to elevate the moral, intellectual, and social life of the worker, to improve the conditions under which he works, to raise his material standards of living, give him a sense of personal worth and dignity, secure for him the leisure for culture, and insure him and his family against the loss of a decent livelihood by reason of unemployment, accident, disease, or old age. In method, this type of unionism employs collective bargaining but stresses mutual insurance, and drifts easily into political action and the advocacy of co-operative enterprises, profit-sharing, and other idealistic plans for social regeneration. The nearest approach in practice to uplift unionism is perhaps to be found in the program of the Knights of Labor.

As a third distinct functional type, we have what most appropriately may be called *revolutionary unionism*. Revolutionary unionism, as the term implies, is extremely radical both in viewpoint and in action. It is distinctly class-conscious rather than trade-conscious. That is to say, it asserts the complete harmony of interests of all wage workers as against the representatives of the employing class and seeks to unite the former, skilled and unskilled together, into one homogeneous fighting organization. It repudiates, or tends to repudiate, the existing institutional order and especially individual ownership of productive means, and the wage system. It looks upon the prevailing codes of right and rights, moral and legal, as in general fabrications of the employing class designed to secure the subjection and to further the exploitation of the workers. In government it aspires to be democratic, striving to make literal application of the phrase *vox populi, vox Dei.*

Of this revolutionary type of unionism there are apparently two distinct varieties. The first finds its ultimate ideal in the socialistic state and its ultimate means in invoking class political action. For the present it does not entirely repudiate collective bargaining or the binding force of contract, but it regards these as temporary expedients. It would not now amalgamate unionist and socialist organizations, but would have them practically identical in membership and entirely harmonious in action. In short, it looks upon unionism and socialism as the two wings of the working-class movement. The second variety repudiates altogether socialism, political action, collective bargaining, and contract. Socialism is to it but another form of oppression, political action a practical delusion, collective bargaining and contract schemes of the oppressor for preventing the united and immediate action of the workers. It looks

forward to a society based upon free industrial association, and finds its legitimate means in agitation rather than in methods which look to immediate betterment. Direct action and sabotage are its accredited weapons, and violence its habitual resort. These varieties of the revolutionary type may be termed respectively *socialistic* and *quasi-anarchistic unionism*. The former is perhaps most nearly represented in the United States by the Western Federation of Miners, the latter by the Industrial Workers of the World.

Finally in the union complex it seems possible to distinguish a mode of action sufficiently definite in its character and genesis to warrant the designation *predatory unionism*. This type, if it be truly such, cannot be set apart on the basis of any ultimate social ideals or theory. It may be essentially conservative or radical, trade-conscious or class-conscious. It appears to aim solely at immediate ends, and its methods are wholly pragmatic. In short, its distinguishing characteristic is the ruthless pursuit of the thing in hand by whatever means seem most appropriate at the time regardless of ethical and legal codes or the effect upon those outside its own membership. It may employ business, friendly, or revolutionary methods. Generally its operations are secret and apparently it sticks at nothing.

Of this assumed union type also there appears to be two varieties. The first may be termed *hold-up unionism*. This variety is usually to be found in large industrial centers masquerading as business unionism. In outward appearance it is conservative; it professes a belief in harmony of interests between employer and employee; it claims to respect the force of contract; it operates openly through collective bargaining, and professes regard for law and order. In reality it has no abiding principles and no real concern for the rights or welfare of outsiders. Prevailingly it is exclusive and monopolistic. Generally it is boss-ridden and corrupt, the membership for the most part being content to follow blindly the instructions of the leaders so long as they "deliver the goods." Frequently it enters with the employers of the group into a double-sided monopoly intended to eliminate both capitalistic and labor competition and to squeeze the consuming public. With the favored employers it bargains not only for the sale of its labor but for the destruction of the business of rival employers and the exclusion of rival workmen from the craft or industry. On the whole its methods are a mixture of open bargaining coupled with secret bribery and violence. This variety of unionism has been exemplified most frequently among the building trades organizations under the leadership of men like the late notorious "Skinney" Madden.

The second variety of predatory labor organization may be called, for want of a better name, *guerilla unionism*. This variety resembles the first in the absence of fixed principles and in the ruthless pursuit of immediate ends by means of secret and violent methods. It is to be distinguished from hold-up unionism, however, by the fact that it operates always directly against its employers, never in combination with them, and that it cannot be bought off. It is secret, violent, and ruthless, seemingly because it despairs of attaining what it considers to be legitimate ends by business, uplift, or revolutionary methods. This union variant has been illustrated recently in the campaign of destruction carried on by the Bridge and Structural Iron Workers.

B. THE VIEWPOINTS OF LABORER AND CAPITALIST

287. The Sons of Martha

BY RUDYARD KIPLING

The Sons of Mary seldom bother, for they have inherited that good part,
But the Sons of Martha favor their mother of the careful soul and the troubled heart;
And because she lost her temper once, and because she was rude to the Lord, her guest,
Her sons must wait upon Mary's sons—world without end, reprieve or rest.

It is their care in all the ages to take the buffet and cushion the shock;
It is their care that the gear engages, it is their care that the switches lock:
It is their care that wheels run truly; it is their care to embark and entrain,
Tally, transport, and deliver duly the Sons of Mary by land and main.

They say to the mountain, "Be ye removed!" They say to the lesser floods, "Run dry!"
Under their rods are the rocks reproved—they are not afraid of that which is nigh.
Then do the hilltops shake to the summit; then is the bed of the deep laid bare,
That the Sons of Mary may overcome it, pleasantly sleeping and unaware.

They finger Death at their glove's end when they piece and repiece
the living wires;
He rears against the gates they tend; they feed him hungry behind
their fires.
Early at dawn ere men see clear they stumble into his terrible stall,
And bait him forth like a haltered steer and goad and turn him till
evenfall.

To these from birth is belief forbidden; from these till death is
relief afar—
They are concerned with matters hidden—under the earth line their
altars are:
The secret fountains to follow up, waters withdrawn to restore to
the mouth,
Yea, and gather the floods as in a cup, and pour them again at a
city's drouth.

They do not preach that their God will rouse them a little before the
nuts work loose;
They do not teach that His Pity allows them to leave their work
whenever they choose.
As in the thronged and lightened ways, so in the dark and the desert
they stand,
Wary and watchful all their days, that their brethren's days may be
long in the land.

Lift ye the stone, or cleave the wood, to make a path more fair or
flat,
Lo! it is black already with the blood Sons of Martha spilled for
that,
Not as a ladder from earth to heaven, not as an altar to any creed,
But simple service, simply given to his own kind, is their common
need.

And the Sons of Mary smile and are blessed—they know the angels
are on their side;
They know in them is the grace confessed, and for them are the
mercies multiplied;
They sit at the feet and they hear the word—they know how truly
the promise runs;
They have cast their burden upon the Lord—and the Lord, He lays
it on Martha's sons.

288. The Viewpoint of the Trade Unionists[5]

BY ROBERT F. HOXIE

Among the main charges brought against the unionist by the employer are these: first, that he refuses to recognize the generally conceded rights of the employing class; secondly, that he does not recognize the sacredness of contract; thirdly, that while he is struggling to obtain higher wages and shorter hours of work, he persistently attempts to reduce the efficiency of labor and the extent of the output. Assuming these charges to be substantially correct, let us in the case of each seek without prejudice to discover the real grounds of the laborer's attitude and action.

1. The "rights" which the employer claims, and which the unionist is supposed to deny, may perhaps be summarily expressed in the phrase, "the right of the employer to manage his own business." To the employer it is a common-sense proposition that his business is his own. To him this is not a subject of argument. It is a plain matter of fact and carries with it the obvious rights of management unhampered by the authority of outside individuals. But to the laborer it is different.

The laborer, like all the rest of us, is the product of heredity and environment. That is to say, he is not rational in the sense that his response to any given mental stimulus is invariable. On the contrary, like the rest of us, he is a bundle of notions, prejudices, beliefs, unconscious preconceptions and postulates, the product of his peculiar heredity and environment. These unconscious and subconscious psychic elements necessarily mix with and color his immediate activity. What is or has been outside his ancestral and personal environment must be either altogether incomprehensible to him, or else must be conceived as quite like or analogous to that which has already been mentally assimilated. He cannot comprehend what he has not experienced.

Now, it is well known that the environment of the laborer under the modern capitalistic system has tended to become predominantly one of physical force. He has been practically cut off from all knowledge of market and managerial activities. The ideals, motives, and cares of property-ownership are becoming foreign to him. More and more, in his world, spiritual forces are giving way to the apparent government and sanction of blind physical causation. In the factory and the mine spiritual, ethical, customary, and legal forces and authorities are altogether in the back-

[5]Adapted from "The Trade-Union Point of View," in the *Journal of Political Economy*, XV, 345–356 (1907).

ground. Everything to the worker, even his own activity, is the outcome of physical force, apparently undirected and unchecked by the spiritual element. The blast shatters the rock, and whatever of flesh and blood is in range is also torn in pieces. The presence and the majesty of the law and contract are altogether ineffective in the face of physical forces let loose by the explosion. In like manner the knife cuts, the weight crushes, the wheel mangles the man and the material with equal inevitableness. No sanction, religious, moral, customary, or legal, is there. Even outside the strictly mechanical occupations the machine and the machine process are coming to dominate the worker, and the growth in size of the industrial unit renders his economic relationships ever more impersonal—withdraws farther from his knowledge the directing and controlling spiritual forces. The laborer thus environed inevitably tends to look upon physical force as the only efficient cause and the only legitimizing sanction. He tends to become mentally blind to spiritual, legal, contractual, and customary forces and their effects.

To the laborer, as the product of this environment, the proprietary and managerial claims of the employer tend to become, of necessity, simply incomprehensible. The only kind of production which he can recognize is the material outcome of physical force—the physical good. Value unattached to and incommensurable with the physical product or means of production is to him merely an invention of the employing class to cover up unjust appropriation. He knows and can know nothing about the capitalized value of managerial ability or market connections. To him, then, the important point is: By what physical force are these things made what they are? It is a matter of simple observation that the employer exerts no direct or appreciable physical force in connection with the productive process. Therefore, in the eyes of the laborer, he simply cannot have any natural rights of proprietorship and management based on productive activity.

In the same way all other grounds on which ownership and the managerial rights of the employer are based have become inconclusive to the laborer. Appropriation, gift, inheritance, saving, contract, in themselves do not produce any physical effect on the only goods which he can recognize. Therefore they cannot be used to prove property in any just or natural sense. They hold in practice simply because back of them is the physical force of the police and army established and maintained by the middle class to protect its proprietary usurpations. Thus the whole claim of the employer to the right to manage his own business to suit himself

has become and is becoming in a way incomprehensible to the laborer on grounds of natural equity. At the same time, by virtue of habit and the sanction of physical force as a productive agent, he sees himself ever more clearly the rightful proprietor of his job and of the products of it. All this is the natural and inevitable outcome of the conditions under which he lives and toils.

2. The unionist laborer does not recognize the sacredness of contract. This is, if anything, a more serious charge than the preceding one.

As a matter of fact, the laborer is so circumstanced that obligations of contract with the employer must appear secondary in importance to his obligations to fellow-workers. This is not difficult to show. Ever since the establishment of the money-wage system, the everyday experience of the laborer has been teaching him the supreme importance of mutuality in his relations with his immediate fellow-workers. The money payment, related not to the physical result of his efforts, but to its economic importance, has been blotting out for him any direct connection between effort and reward. Experience has taught him to look upon his labor as one thing in its effects and another thing in its reward. As a thing to be rewarded he has learned to consider it a commodity in the market. As such he knows that it is paid for at competitive rates. He has learned that, if he undercuts his fellow, prompt retaliation follows, to the detriment of both, and he has learned that combination with his fellow results in better immediate conditions for both.

The worker does not, of course, look far beyond the immediate results. In severing the obvious connection between his task and the complete product, in removing from him all knowledge of the general conduct and condition of the business, in paying to him a fixed wage regardless of the outcome of the particular venture, and in paying him a wage never much in excess of his habitual standard of living, the factory and wage system have accustomed him to a hand-to-mouth existence, have barred him from all the training effects of property-ownership, and have atrophied his faculties of responsibility and foresight. Moreover, it is not to be expected that today's empty stomach will be comforted by tomorrow's hypothetical bread, least of all by bread which is likely to comfort the stomach of another. Is it any wonder, then, that the laborer does not and that he cannot follow the economist in his complicated arguments to prove that, in the long run and on the whole, the keenest competition among laborers brings the highest rewards?

Proneness to breach of contract, therefore, is seen to be a natural and evitable outcome of his life and working conditions.

3. The third charge against the unionist which we have undertaken to examine states that while he is struggling for increase of wages he is at the same time attempting to reduce the efficiency of labor and the amount of the output. In other words, while he is calling upon the employer for more of the means of life he is doing much to block the efforts of the employer to increase those means.

There is no doubt that this charge is to a great extent true. In reasoning upon this matter the employer, viewing competitive society as a whole, assumes that actual or prospective increase in the goods' output means the bidding-up of wages by employers anxious to invest profitably increasing social income. It follows that in competitive society laborers as a whole stand to gain with improvements in industrial effort and process. In the case of the individual competitive establishment it is clear that the maximum income is ordinarily to be sought in the highest possible efficiency, resulting in increased industrial output. At least this is true where there are numerous establishments of fairly equal capacity producing competitively from the same market. Under such circumstances the increased output of any one establishment due to "speeding up" will ordinarily have but a slight, if any, appreciable effect on price. Each individual entrepreneur, therefore, is justified in assuming a fixed price for his product and in reckoning on increase of income from increase of efficiency and industrial product. Apparently it rarely occurs to the employer that this analysis is not complete. Having assumed that definite laws determine the manner in which income is shared among the productive factors, he apparently concludes, somewhat naively, that just as the laborers in society will in the aggregate profit by increase in the social income, so also will the laborers in any individual establishment profit by increase in its income.

To this mode of reasoning, and to the conclusions reached through it, the unionist takes very decided exceptions. To the statement that labor as a whole stands to gain through any increase in the social dividend he returns the obvious answer that labor as a whole is a mere academic conception; that labor as a whole may gain while the individual laborer starves. His concern is with his own wage-rate and that of his immediate fellow-workers. He has learned the lesson of co-operation within his trade, but he is not yet class-conscious. In answer to the argument based on the individual competitive establishment he asserts that the conditions

which determine the income of the establishment are not the same as those which govern the wage-rate. Consequently, increase in the income of the establishment is no guarantee of increase of the wage-rate of the worker in it. Conversely, increase in the wage-rate may occur without increase in the income of the establishment. Indeed, in consequence of this non-identity of the conditions governing establishment income and wage-rate, increase in the gross income of the establishment is often accompanied by decrease in the wage-rate, and the wage-rate is often increased by means which positively decrease the gross income of the establishment.

The laborer's statements in this instance are without doubt well founded. The clue to the whole situation is, of course, found in the fact that the wage-rate of any class of laborers is not determined by the conditions which exist in the particular establishment in which they work, but by the conditions which prevail in their trade or "non-competing group." With this commonplace economic argument in mind, the reasonableness of the unionist's opposition to speeding up, and of his persistent efforts to hamper production, at once appears.

289. Articles of Faith

a) An Economic Creed[6]

The National Association of Manufacturers of the United States of America does hereby declare that the following principles shall govern the Association in its work in connection with the problems of labor:

1. Fair dealing is the fundamental and basic principle on which relations between employes and employers should rest.

2. The National Association of Manufacturers is not opposed to organizations of labor as such, but it is unalterably opposed to boycotts, black-lists and other illegal acts of interference with the personal liberty of employer and employe.

3. No person should be refused employment or in any way discriminated against on account of membership or non-membership in any labor organization, and there should be no discriminating against or interference with any employe who is not a member of a labor organization by members of such organizations.

4. With due regard to contracts, it is the right of the employe to leave his employment whenever he sees fit, and it is the right of the employer to discharge any employe when he sees fit.

[6]Resolutions adopted at the Eighth Annual Convention of the National Association of Manufacturers, New Orleans, April, 1903.

5. Employers must be free to employ their work people at wages mutually satisfactory, without interference or dictation on the part of individuals or organizations not directly parties to such contracts.

6. Employers must be unmolested and unhampered in the management of their business, in determining the amount and quality of their product, and in the use of any methods or systems of pay which are just and equitable.

7. In the interest of employes and employers of the country, no limitation should be placed upon the opportunities of any person to learn any trade to which he or she may be adapted.

8. The National Association of Manufacturers disapproves absolutely of strikes and lock-outs, and favors an equitable adjustment of all differences between employers and employes by any amicable method that will preserve the rights of both parties.

9. Employes have the right to contract for their services in a collective capacity, but any contract that contains a stipulation that employment should be denied to men not parties to the contract is an invasion of the constitutional rights of the American workman, is against public policy, and is in violation of the conspiracy laws. This Association declares its unalterable antagonism to the closed shop and insists that the doors of no industry be closed against American workmen because of their membership or nonmembership in any labor organization.

10. The National Association of Manufacturers pledges itself to oppose any and all legislation not in accord with the foregoing declaration.

b) A Political Creed[7]

Whereas, The National Association of Manufacturers, in convention assembled in New Orleans, in 1903, adopted, declared and promulgated certain principles governing the work of the association in connection with problems of labor; and

Whereas, The past decade has demonstrated the truth of these declared principles; and

Whereas, During the past ten years new and different problems have also emerged, affecting our governmental, economic and industrial society, upon which we deem it our duty at this time to express our attitude and stand; therefore

[7]Resolutions adopted at the Eighteenth Annual Convention of the National Association of Manufacturers, Detroit, May, 1913.

Resolved, That in addition to the principles heretofore enunciated and declared at our convention in New Orleans in 1903, we, in convention assembled, declare and promulgate, in addition, the following declaration of principles:

First. We hold that the inherent powers of our courts of equity shall not be abridged in the issuance of injunctions in labor disputes.

Second. We hold that the power vested in our courts to punish for contempt of court should not be abridged by the granting of jury trial for contempt.

Third. We protest against class legislation, whether enacted by state legislatures or congress, and we assert that all forms of class legislation are un-American and detrimental to our common good.

Fourth. We pledge our loyalty to our judiciary, upon the maintenance of which, unswerved by passing clamor, rests the perpetuation of our laws, our institutions and our society.

Fifth. We favor the further enactment of equitable, beneficial, and simplified workingmen's compensation legislation.

Sixth. We denounce the subserviency of representatives of the whole people to the dictation of any class legislation.

Seventh. We affirm, in the light of proven facts, that any compromise, toleration, or identification with the leaders of criminal unionism will stultify our liberties and weaken respect for our laws and their just enforcement.

Eighth. We affirm our approval of the enactment of wise and just laws, necessary to improve conditions of labor.

Ninth. We affirm that our tested, self-controlled, representative democracy is adequate, under our constitutional guarantees, to effectuate the real needs and purposes of our national life.

Tenth. We pledge ourself towards the accomplishment of the spirit and purpose of the foregoing.

C. CHARACTER AND PURPOSES OF TRADE UNIONS

290. The Undemocratic Character of Trade Unions[8]

BY CHARLES W. ELIOT

Trades unionism came into being under undemocratic forms of government shortly after the new developments of mechanical power changed completely the methods and conditions of many

[8]Adapted from *The Future of Trades Unionism and Capitalism in a Democracy,* 9–29. Copyright by Kenyon College (1909).

fundamental industries. The methods of the new trades unions, organized to improve the condition of the laboring people, were necessarily the methods of fighting, violence, and war. The conflicts of the employed with the employers were often barbarous and cruel on both sides. Nevertheless, the efforts of the unions were gradually successful. Through them higher wages and shorter hours were procured at a time when no disinterested and humane person could doubt that wages were too low and hours too long. This clear success gave the working people confidence in the violent methods employed. Gradually new policies, looking toward the creation of a monopoly of labor in each particular trade by the union of that trade, came into use.

The first is the limitation in the number of apprentices that shall be employed in a given trade. This limit of the number is ordinarily far below the number which it would be for the interest of the proprietor to employ. The object of this limitation is to keep down the number of journeymen in the trade, so as to prevent the coming into the trade of a number of persons so great as to affect the rate of wages. With a similar intention, trades unions have in general resisted the introduction of trade schools into public school systems, and have also been disposed to interfere with the work of private or endowed trade schools. The policy of limiting the number of apprentices flies in the face of the American doctrine that education should be free to all, and should furnish a useful training for the practice of any art, trade, or profession. Moreover, it is a selfish and monopolistic policy without mitigation.

Furthermore, many unions lay down rules which make it hard for a journeyman to become an employer, prescribing, for example, that no one shall become an employer until he is prepared to employ a specified number of journeymen. Such rules tend to stiffen every class or set of mechanics or operatives. Each class is hard to get into, and still harder to get out of; so that the true democratic mobility between classes or sets of working people is seriously impaired. It is a survival of the fighting times of trades unionism. Every fighting organization is compelled to sacrifice in large measure the individual liberty of its members. Herein unionism and democracy are in absolute opposition.

Two other monopolistic inventions have, within years comparatively recent, been adopted by trades unionism, the boycott and the union label. The boycott is intended to prevent all persons from buying, or even handling commercially, articles not made by union labor; and the union label is intended to support the boycott, and to enable and induce the public to discriminate against articles which

do not bear the label. The object of both policies is to secure all the productive labor in a given trade for union men; to this end articles or goods made by non-union men must find no market. The monopolistic aim of these policies is perfectly plain.

Many unions refuse to handle in their respective trades materials made by non-union labor, or coming from factories which are not conducted exclusively by union rules. This policy, if carried out successfully by a strong union which covers a large area, is capable of forcing the manufacturer to unionize his establishment; whereupon the unfortunate consumer is likely to be at the mercy of the manufacturer and the union combined. These monopolistic combinations are often entirely successful in the United States, or in large parts thereof, particularly in the building trades, and their recent successes account for a considerable portion of the great rise of prices which has taken place in this country during the last five years.

The manufacturer of plumbers' supplies, for example, makes an agreement that he will sell only to jobbers and to plumbers. The jobber agrees that he will sell only to plumbers. The plumbers are all union men. The owner of a building under construction cannot buy plumbers' supplies unless from some independent manufacturer who is not in the combination. If he buys of such an independent manufacturer, the plumbers at work in his building will not touch the materials he has bought. In the district covered by such an agreement there is no competition which is really free.

It would be hard to exaggerate the intense opposition between all these monopolistic policies and the individual freedom in education, in family life, in productive labor, and in trade, which is the object and end of democracy. The limitation of output is a trades-union practice which combines in an unwholesome way a selfish unfaithfulness to duty in the individual workman with a deceptive notion of philanthropic interest in fellow-workmen.

Another trades-union doctrine that has had a very unfortunate effect on individual character is the doctrine or practice of the minimum wage. In practice that wage turns out to be a uniform maximum wage, and it is ordinarily put at a level above the worth of the less skillful workmen. This practice is for the pecuniary interest of the younger and least skillful workmen, who, as a rule, predominate in the union, or at least are its most assiduous members. The first effect of this practice is to deprive the younger members of a union of all motive for improvement. A youth receives at the start the uniform wage, and the veteran who is a member of the same union is receiving no more. No effort on his part can raise his

wages. The disastrous effect of this policy of the uniform wage on the desirable and happy increase of intelligence, efficiency, and good will as life goes on, is perfectly apparent. Now a true democracy means endless variety of capacity freely developed and appropriately rewarded. Uniformity of wages ignores the diversity of local conditions as well as of personal capacity, obstructs the ambitious workman, cuts off from steady employment those who cannot really earn the minimum wage, and interferes seriously with the workman's prospect of improving his lot.

It is high time it should be generally understood that trades unionism in important respects works against the very best effects of democracy.

291. An Employer's View of Trade Unions[9]

BY ANDREW CARNEGIE

The influence of trades-unions upon the relations between the employer and employed has been much discussed. Some establishments in America have refused to recognize the right of the men to form themselves into these unions, although I am not aware that any concern in England would dare to take this position. This policy, however, may be regarded as only a temporary phase of the situation. The right of the workingmen to combine and to form trades-unions is no less sacred than the right of the manufacturer to enter into associations and conferences with his fellows, and it must sooner or later be conceded. Indeed, it gives one but a poor opinion of the American workman if he permits himself to be deprived of a right which his fellow in England long since conquered for himself. My experience has been that trades-unions, upon the whole, are beneficial both to labor and to capital. They certainly educate the working-men, and give them a truer conception of the relations of capital and labor than they could otherwise form. The ablest and best workmen eventually come to the front in these organizations; and it may be laid down as a rule that the more intelligent the workman the fewer the contests with employers. It is not the intelligent workman, who knows that labor without his brother capital is helpless, but the blatant ignorant man, who regards capital as the natural enemy of labor, who does so much to embitter the relations between employer and employed; and the power of this ignorant demagogue arises chiefly from the lack of proper organization among the men through which their real voice

[9]Adapted from *The Gospel of Wealth and Other Timely Essays,* 114-116. Copyright by Doubleday, Page & Co. (1906).

can be expressed. This voice will always be found in favor of the judicious and intelligent representative. Of course, as men become intelligent more deference must be paid to them personally and to their rights, and even to their opinions and prejudices; and, upon the whole, a greater share of profits must be paid in the day of prosperity to the intelligent than to the ignorant workman. He cannot be imposed upon so readily. On the other hand, he will be found much readier to accept reduced compensation when business is depressed; and it is better in the long run for capital to be served by the highest intelligence, and to be made well aware of the fact that it is dealing with men who know what is due to them, both as to treatment and compensation.

292. The Purposes of Trade Unionism[10]

BY JOHN MITCHELL

In its fundamental principle trade unionism is plain and simple. Trade unionism starts from a recognition of the fact that under normal conditions the individual, unorganized workman cannot bargain advantageously with the employer for the sale of his labor. Since he has no money in reserve and must sell his labor immediately, since he has no knowledge of the market and no skill in bargaining, since, finally, he has only his own labor to sell, while the employer engages hundreds or thousands of men, and can easily do without the services of any particular individual, the workingman, if bargaining on his own account and for himself alone, is at an enormous disadvantage. Trade unionism recognizes the fact that under such conditions labor becomes more and more degenerate, because the labor which the workman sells is a thing of his very life and soul and being. In the individual contract between the rich employer and the poor laborer, the laborer will secure the worst of it. The individual contract means that the worst and lowest man's condition in the industry will be that which the best man must accept. From first to last, from beginning to end, always and everywhere, trade unionism stands opposed to the individual contract. There can be no concession or yielding upon this point. There can be no permanent prosperity of the working classes, no consecutive improvements in conditions, until the principle is firmly and fully established, that in industrial life, the settlement of wages, the hours of labor, and all conditions of work, must be made between employers and workingmen collectively and not individually.

[10]Adapted from *Organized Labor*, 2–11. Copyright by the American Book and Bible House (1903).

Trade unionism thus recognizes that the destruction of the workingman is the individual bargain, and the salvation of the workingman is the joint, united, or collective bargain. To carry out a joint bargain, however, it is necessary to establish a minimum of wages and conditions which will apply to all. By this it is not meant that the wages of all shall be the same, but merely that equal pay shall be given for equal work. If some are so willing to be over-rushed as to do more than a fair day's work for a fair day's wage, or are willing to allow themselves to be forced into patronizing truck stores, to submit to arbitrary fines or unreasonable deductions, whereas others would rebel at these impositions, it would result that in the competition among the men to retain their positions, those who were most pliant and lowest spirited would secure the work, and the wages, hours of labor, and conditions of employment would be set or accepted by the poorest, most cringing, and least independent of workers. If the trade union did not insist upon enforcing common rules providing for equal pay for equal work and definite conditions of safety and health for all workers in the trade, the result would be that all pretense of a joint bargain would disappear, and the employers would be free constantly to make individual contracts with the various members of the union.

The trade union does not stand for equal earnings for all workmen. It does not object to one man's earning twice as much as the man working by his side, provided both men have equal rates of pay, equal hours of work, equal opportunities of securing work, and equal conditions of employment. What the union insists upon is that certain minimum requirements be fulfilled for the health, comfort, and safety of all, in order that the workingmen shall not be obliged to compete for jobs by surrendering their claims to a reasonable amount of protection for their health, and for their life and limb.

The trade union thus stands for freedom of contract on the part of workingmen—the freedom or right to contract collectively. The trade union also stands for definiteness of the labor contract. The workingman agrees to work at a wage offered him by his employer, but frequently nothing is said as to hours of labor, periods for meals and rest, intensity of work, conditions of the workshop, protection of the workmen against filthy surroundings or unguarded machinery, character of his fellow-workmen, liability of the employer for accident, nor any of the thousand conditions which affect the welfare of the workman and the gain of both employer and employee. In the absence of an agreement with the union it

is in the power of the employer to make such rules absolutely, or to change or amend them at such times as he thinks proper.

The right to bargain collectively necessarily involves the right to representation. Experience and reason both show that a man, who is dependent upon the good will of an employer, is in no position to negotiate with him. Workingmen should have the right to be represented by whomsoever they wish. The denial of the right of representation is tyranny. Without the right to choose their representatives, the men cannot enjoy the full benefit of collective bargaining; and without the right of collective bargaining, the door is open to the evils of the individual contract. To avoid these calamities the workmen demand "the recognition of the union."

D. THE THEORY OF UNIONISM

293. The Principle of Uniformity[11]

BY ROBERT F. HOXIE

The key to the understanding of union rules and actions is to be found in the fundamental principles and theories of their program. If you understand these thoroughly and the policies to which they give rise, you can generally explain any given rule or act without difficulty; and without that understanding you are almost certain to go astray. In the space available it is barely possible to illustrate in a general way these theories.

Let us, then, by way of illustration, take one of the fundamental principles of Business Unionism, the principal of uniformity or standardization, and use it as a partial explanation of union policies, demands, and methods. This principle requires that all the men doing the same work use the same kind of tools and materials, work normally the same length of time, and at the same speed, turn out the same quantity and quality of goods, and receive the same rate of wages. The union argument on which the principle rests runs somewhat as follows:

1. Wages and conditions of employment are determined by the relative bargaining strength of the workers and employers of the industrial group.

[11]Adapted from an unpublished lecture entitled *"The Trade-Union Program,"* delivered at the University of Michigan, May 17, 1914. The statements in this paper are general and admit of many exceptions. They constitute a theoretical statement of the tendencies underlying union activities rather than a generalization from such activities. They are not clearly understood even by all unionists.

2. Under competitive conditions the bargaining strength of the employer is greater than that of the individual laborer, because of (*a*) the superior bargaining knowledge, skill, and waiting power of the employer; (*b*) the smaller object which he has at stake—pecuniary profits versus life; (*c*) the presence of an actual or potential oversupply of labor; (*d*) the increase in bargaining power on the part of the employer in inverse ratio to his industrial and financial strength; (*e*) the limitation of the bargaining strength of the labor group to the competitive strength of its weakest member.

3. The full bargaining strength of the employer is bound to be exercised against the workers because under competitive conditions the pressure of the consuming public for cheap goods is transmitted through the retailer and the wholesaler to the most unscrupulous employer, who sets the pace; while under monopolistic conditions the relations of the employer and the worker are impersonal.

4. Therefore, allowing the employer to pit his bargaining strength against the bargaining strength of each worker, thus fixing their different rates of work, wages, etc., means the progressive deterioration of the wages and conditions of employment of the group.

5. The only way to prevent this deterioration is to rule out competition by establishing and maintaining the principle of uniformity or standardization, i. e., to require for all the men doing the same work the use of the same kinds of tools and materials, the same working time, the same speed, the same quality of work, and the same output.

Now let us see what light this policy throws upon the policies, demands, methods, and attitudes found in the union program. The main purpose of this principle, as we have seen, is to rule out competition. But competition is possible in regard to the wage rate, hours of labor, or the exertion and output of the individual. To prevent the first the establishment of a standard rate of wages at a fixed minimum is necessary. The prevention of the second requires the fixing of a normal day or week as a maximum. The third, in like manner, necessitates uniformity in the conditions and rate of work. It is obvious that these conditions working together make the standard rate a practical maximum as well as a minimum. Hence there arises the tendency toward dead-line mediocrity.

Competition, however, is possible not only in regard to the wage rate, the hours, and the exertion or output, but also in regard to the safety and sanitation, the comfort and convenience of the shop; the times of beginning and ending work; the arrangement of shifts; the

time, place, mode, and character of pay; the materials and tools used; and all the minor details of the conditions of work and pay. Hence, to secure uniformity, there arises the necessity of minute specifications of standards in regard to all the incidents of work and pay, from which no deviation can normally be allowed. This explains a multitude of petty and harassing restrictions, of which employers complain, the validity of which rests, not on their immediate character and effects, but on the validity of the general principle of uniformity.

A large part of the Trade-Union Program is thus seen to be a direct effort to establish specific standards incidental to the principle of uniformity. Another large portion is in the interest of enforcement of conditions essential to their existence.

Let us first consider the latter. It is evident that these standards cannot exist if they are violated with impunity; still successful enterprise demands flexibility. Hence there has grown up a long list of irregularities and violations permitted but charged with penalties. These have the double object of stopping underbidding and of preventing the irregular practices from becoming regularly established. For example, overtime, the doing of extraordinary kinds of work, and the doing of work in irregular ways are allowed, but only on condition of extra pay.

These standards, moreover, are hard to establish and maintain in a thoroughly dynamic industrial state, where new trades are evolving, and new processes are coming in constantly. This in part explains the undoubted tendency of unions to restrict new trades, new machinery, new methods, and new processes in industry—in short, industrial progress.

Now if we turn to the enforcement of these standards, we shall find that another large block of union policies and demands are, in part at least, in the interests of the principle of uniformity, and are valid if it is valid. The enforcement of these standards means the Common Rule. But to secure this you must have Collective Bargaining, or legislation. Collective Bargaining implies recognition of the union and all the complex machinery for the making and enforcement of contracts.

Moreover, you cannot enforce these standards unless you control the Workers or the Working Personnel. This, in part, explains apprenticeship regulations, and to the unionist calls absolutely for the Closed Shop and the control of hiring and discharge of men. It is evident that if you cannot control the men you cannot cut out underbidding in its manifold guise. This is especially true, since the

employer is always supposed to be trying to induce it by Swifts, bell-horses, secret bonuses, frightening the men, etc.

To enforce uniformity you must also have control over the output of the individual and you must control the processes of production. You must prevent the use of methods of stimulation, such as bonus systems, etc., by the employer. Moreover, you must stop up every minutest loophole for the evasion of the principle by the employer. Hence you must watch him carefully; you must have walking delegates on the job. You must carefully delimit the field of work, and prevent reclassification, so that the employer cannot create exceptions by the use of new men or new work. Here again we find explanation of a great number of harassing detailed demands and rules which the union endeavors to enforce.

It follows, then, that a large portion of the more specific part of the trade-union program is implied in the principle of uniformity and flows directly from the effort to establish and enforce it.

294. Collective Bargaining and the Trade Agreement[12]

BY JOHN R. COMMONS

Philanthropists have long been dreaming of the time when capital and labor should lay aside the strike and boycott and should resort to arbitration. By arbitration they understand the submission of differences to a disinterested third party. But the philanthropists have overlooked a point. Arbitration is never accepted until each party to a dispute is equally afraid of the other; and when they have reached that point, they can adopt something better than arbitration,—namely, negotiation. Arbitration is impossible without organization, and two equally powerful organizations can negotiate as well as arbitrate. This higher form of industrial peace—negotiation—has now reached a formal stage in a half dozen large industries in the United States, which, owing to its remarkable likeness to parliamentary government in the country of its origin, England, may well be called constitutional government in industry.

The bituminous mine operators and the bituminous mine workers of the four great states of Illinois, Indiana, Ohio and Pennsylvania have such a constitution. The annual interstate conference of the bituminous coal industry is the most picturesque and inspiring event in the modern world of business. Here is an industry

[12]Adapted from "A New Way of Settling Labor Disputes," in the *American Review of Reviews,* XXIII, 328-333. Copyright (1901).

where, for many years, industrial war was chronic, bloodshed frequent, distrust, hatred, and poverty universal. Today the leaders of the two sides come together for a two weeks' parliament, face to face, with plain speaking, without politics, religion, or demagogy; and there they legislate for an industry that sends upon the market annually $200,000,000 of product.

The most comforting feature of such negotiations is the matter-of-fact way in which each side takes the other. There is none of that old-time hypocrisy on the part of the employers, that their great interest in life is to shower blessings upon their hands; and there is none of that ranting demagogy on the part of the workmen about the dignity of labor and the iniquity of capital. On the contrary, each side frankly admits that its ruling motive is self-interest; that it is trying to get as much as it can and to give as little as it must; and that the only sanction which compels them to come together, and to stay together until they reach a unanimous vote, is the positive knowledge that otherwise the mines will shut down and neither the miner will earn wages nor the operator reap profits. It is simply wholesome fear that backs their discussions: the capitalist knows that there are no other laborers in the world whom he can import as "scabs" to take the places of those whose representatives face him in this conference and this scale committee, and he knows, too, from a severe experience, that every one of these 110,000 miners will obey as one man the voice of these their chosen representatives. The miners know, also, that these capitalists with whom they are negotiating are the very ones who control their only opportunities for earning the wages that feed themselves and their families. Consequently, everybody knows that an agreement must be reached before adjournment, or else the industry will be reduced to anarchy and their wages and profits, to say nothing of lives, will be destroyed.

In every trade agreement there are usually two large and distinct questions on which the parties differ, namely, wages and methods of managing employees. The labor side wants higher wages (including short hours) and restrictions on bosses and foremen. The employer side wants low wages and a free hand for the boss. Each side thereupon comes to the joint conference with demands more extreme than it expects to see granted. At the conference of 1900 the operators offered an advance of 9 cents per ton and the miners demanded an advance of 20 cents. The operators wished to retain the system of paying for the screened coal only, and not for the slack and waste; but the miners demanded payment on the basis of the "run-of-the-mine," i. e, of all coal brought to the surface, before it is run over the screens. The miners asked also 7 cents

differential between pick and machine mining, but the operators wanted 12 cents differential.

These opposing propositions had been formulated in separate conventions and conferences by the opposing sides. The operators' position was presented to the joint conference and received the unanimous "aye" of the operators and the unanimous "no" of the miners. The miners' proposition was then presented, and received the unanimous "aye" of the miners and the unanimous "no" of the operators. The two sides then began their parrying. Mr. Mitchell accused the operators of "joking." The operators accused the miners of absurdity. Several days were spent in these tilts. Finally concessions were made on both sides. Certain matters were left undecided or referred back to the state conferences. The committee reported a unanimous agreement, and the joint conference adopted it unanimously. It gave an advance of 14 cents in some districts, and 9 cents in others. It permitted the "mine-run" standard in certain districts, and the "screened" standard in other districts, and a "double standard" in yet a third group of districts, but regulated the size of the screen and fixed a wide differential between "mine-run" and a "regulation screen." Similar compromises were made on the machine scale, day labor, and all along the line. Nobody was satisfied, yet everybody was satisfied. It was the best they could do, and it saved the business from paralysis. "A failure to agree," said President Mitchell in his closing speech, "would not only have ruined the homes of the miners, but would have ruined the business of the operators." And though the miners did not get what they expected, yet, said Mitchell, "there has never been a time in the history of mining, even within the recollection of the oldest one among you, when an advance so great as this, and applied to so great a number of men, was secured."

The success of each conference depends directly upon the enforcement of the legislation of the preceding conference. Curiously enough, this enforcement falls solely upon the miners' organization. The operators, indeed, have their several state associations, but no national nor interstate association like that of the miners. Moreover, the operators are loosely organized. They can bring only moral suasion to bear upon the recalcitrant operator who rebels at their national decrees. But the miners can do more; they not only can suspend their own local unions which violate the agreement, but they can shut down the mine of the rebellious operator and drive him out of business. The operators understand this, and they know that their own protection against the cutthroat operator depends solely on the Miners' Union. President Mitchell, of the union, at the close of the Indianapolis conference, significantly ac-

cepted his office of joint executive in what might be called his inaugural. He said, "I will give notice to the operators now that when they go home, unless they keep the agreement inviolate, we will call the men out; and I will serve notice on the miners that, unless they keep the laws of the organization, we will suspend them from the organization."

In trade agreements the employer must recognize the union. Employers are willing to pay high wages if all their competitors pay the same wages. It is not high wages that they dread, but secret and unfair cutting of wages. This is also exactly what the laborers resist. The joint state or national agreements place all competitors on the same basis in the same market. Indeed, in the coal trade the scale is nicely adjusted so that the districts with the better quality of coal and the lower railway charges are required to pay enough higher wages than other districts to counterbalance their superior natural advantages. On this basis, so far as the union enforces the agreement, every operator knows exactly what his competitor's coal is costing; there is no secret cutting; and the trade is not brought down to the level of the few unscrupulous and oppressive operators who grind down their laborers. For this reason the bulk of employers who have had experience with these joint agreements are heartily in favor of them.

The most important result of these trade agreements is the new feeling of equality and mutual respect which springs up in both employer and employee. After all has been said in press and pulpit about the "dignity of labor," the only "dignity" that really commands respect is the bald necessity of dealing with labor on equal terms. With scarcely an exception the capitalist officials who make these agreements with the labor officials of these powerful unions testify to their shrewdness, their firmness, their temperance, their integrity, and their faithfulness to contracts. Magnificent generalship is shown in combining under one leadership the miscellaneous races, religions, and politics that compose the miners of America. The labor movement of no other country has faced such a problem.

295. The Economics of the Closed Shop[13]

BY FRANK T. STOCKTON

In recent popular discussion of the closed shop much emphasis has been put upon its uneconomical character. The charge is made that the demand for the exclusive employment of union men, by

[13]Adapted from *The Closed Shop in American Trade Unions,* 165–175. Copyright by the Johns Hopkins Press (1911).

interfering with the right of an employer to "run his own business," makes high efficiency impossible. This argument is based on the fact that the employer, under the competitive system, is alone responsible for the successful conduct of business undertakings. If he fails to produce as well and as cheaply as others do, the loss is his. It is necessary, therefore, for the most economic conduct of business that the employer "should have power to order his own affairs." He "should not be influenced by any other consideration in the hiring of men than the ability, fitness or loyalty of the applicant." At the same time he should be free to reward exceptional workmen and to discharge those who are inefficient or insubordinate. He should be the sole judge as to the kind of machinery, tools, and material to be used. Only in this way, it is argued, can the employer secure that "effective discipline" which is essential in bringing about the "highest measure of success in industry."

The "essence" of the open shop is that the employer is entirely free "to hire and discharge." The closed shop, on the other hand, denies him the "right to hire and discharge." If the employer wishes to hire competent non-union men, he is prevented from procuring their services if they cannot or will not obtain union membership.

The employer complains that under the closed shop, instead of being able to secure workmen regardless of whether they are union or non-union, white or black, Catholic or Protestant, Jew or Gentile, he is compelled to draw from a definitely fixed labor market. Very often, too, this market is severely limited by the refusal of the unions on one ground or another to admit competent workmen to membership. He cannot hire members of other unions who are competent to do the work because this will at once involve him in a jurisdictional dispute. One trial is enough to demonstrate the fact that members of rival unions tolerate each others' presence less than they do that of non-unionists. There is then no practicable way in which he can secure additional help when his work increases except by bidding for workmen against other union employers. It is also said that the closed shop serves to prevent the discharge of inefficient employees.

Another evil attributed to the closed shop is that it establishes a minimum wage which becomes virtually also a maximum wage. This is said to produce a disastrous "dead level" of efficiency throughout an establishment and to discourage effort. Accordingly union control is declared to be "absolute death to individual effort and ambition," and to cause the degeneration of "mental and moral fiber." Restriction of output is the direct result of such conditions.

Especially harmful does the closed shop become, in the opinion of its opponents, when a union requires foremen to obey its rules and to serve the union rather than the employers. All closed-shop unions, it is represented, "define the workman's rights but say nothing of his duties. They destroy shop discipline and put nothing in its place."

To these indictments the advocates of the closed shop have made vigorous rejoinder. They assert that while the unions do not allow employers to "victimize" their members, they do not interfere otherwise with the "right to hire and discharge" as long as all persons who are hired become union members. It is also flatly denied that the minimum wage is usually the maximum, and that production is restricted in closed shops.

The reconciliation of these conflicting statements of facts is possible. The opponents of the closed shop in discussing its economic effects always assume that the closed shop is everywhere the same, and take as typical those unions in which the restrictions on employment are most severe. The advocates of the closed shop assume as typical those unions in which the restrictions are mildest. It will be noted that in this respect the unions vary widely. In the majority of closed-shop unions, however, the employer is allowed to hire non-unionists when competent unionists are not available, or even in many unions when they are available. It is also customary to allow such non-unionists to work a certain period in a shop before being required to join the union. There is little basis for the claim, therefore, that employers are restricted to hiring union men only. It is true that "scabs" and members of rival unions are rarely allowed to work. "Scabs," however, form but a small part of the men in any trade, and agreements between rival unions have now to some extent solved the problem of jurisdictional disputes.

If the union itself is closed, union employers have no means of obtaining additional help when their business increases. The closed union, however, although it is usually found with the closed shop, is not identical with it. To say that no more members shall be admitted to a union is an entirely different thing from saying that union men shall not work with non-unionists.

All unions that have advanced beyond the most rudimentary stage enforce a minimum wage. The tendency to uniformity and a "dead level" growing out of the existence of the minimum wage can only be connected with the closed shop through some restriction on the right to hire and discharge. If the union has a compulsory waiting list, it is easy to see how the minimum wage may become the maximum wage. However, compulsory waiting lists are established

in very few unions. Similarly, restriction of output is connected with the closed shop only through the waiting list. A great part of closed-shop unions do not have waiting lists.

It is also charged that the joint and extended closed shops lead to demands upon employers. When satisfactory conditions have been obtained in one trade, the men may be called out on strike because "unfair" material is used, or because the open shop exists in an allied trade. Grievances "manufactured outside the shop" are thus said to be constantly arising. Complaint is also made that the closed shop is responsible for many unnecessary shop rules which virtually deprive the employer of control over his business. One writer has gone so far as to say that "the amount of restriction which it may be expected to find in 'closed shops' will certainly amount to one-third of what the output should amount to." Statements have frequently been made that the open shop has brought business prosperity to different communities.

Taking up the last of these contentions first, the unions allege that closed-shop agreements are of distinct advantage to employers. In open shops of most trades the employer is said to be constantly harassed with complaints from individuals. In closed shops all grievances must first be referred to the union, which acts upon many of them unfavorably. It is equally undeniable that most unions which have opportunity to enforce the extended or the joint closed shop have not hesitated at times to strike even when all their demands in the particular shop have been satisfied.

The unions have also denied in a general way that their shop rules have been unduly restrictive. As a matter of fact, the great open-shop movement which began in 1901 was caused primarily by the rapid increase in rules regulating the number of apprentices, the kind of machinery that should be used, the methods of shop management, and the like. The connection between the closed shop and arbitrary shop rules is close, but the two are not identical. Arbitrary rules can rarely be enforced except in closed shops. If the union is strong enough to secure the one, it can, if it sees fit, enforce the other. Obviously, however, a closed-shop union need not, and many of them do not, have hurtful shop rules.

The defenders of the closed shop have tried to show that the closed shop is an advantage to an employer. In the first place, they claim that the closed shop protects fair-minded employers from "cut-throat competition." If an industry is thoroughly unionized, every manufacturer or contractor can tell precisely what his competitors are paying in wages. As wages form the largest item in the

average employer's expense account, it therefore becomes possible for him to "figure intelligently on his work," something which he "could never feel certain of were the open shop to pervail." The same shop rules also apply in all union establishments. Under the open shop not nearly the same uniformity in competitive conditions can be secured. The closed shop is a device absolutely essential to the rigid and wide enforcement of union rules.

Secondly, those who uphold the closed shop affirm that it tends to create a greater *esprit de corps* among the men than the open shop does. Union and non-union men represent two diametrically opposed ideas. The first stand for collective, the second for individual action. Consequently, there is constant conflict between the two in the endeavor to obtain control over a shop. Because his men do not co-operate, the employer is likely to lose money. Therefore as a business necessity open shops must become either union or non-union. That there should be ill-feeling between union and non-union men is easily understood when we consider why unions desire the closed shop. Non-union men are the economic enemies of unionists as long as employers resort to individual bargaining or express a dislike for full union control. In particular, efforts are put forth to make the employment of "scabs" unprofitable.

Finally, unionists say that the closed shop is advantageous to employers because in many unions it carries with it the privilege of using a label that has a distinct market value. No union solicits work for an open shop. A label, however, is an advantage to an employer only under certain conditions. It can be used to best advantage on articles largely purchased by the laboring classes. That a label increases sales on such goods is evidenced by the fact that manufacturers, solely for the purpose of obtaining the use of the label, have often asked that their establishments be unionized. The labor journals not infrequently contain statements from employers that the closed shop is a "good business proposition." But the label rarely effects an increase in the demand for expensive goods or for articles sold to women. It is evident, therefore, that the number of employers who can find an advantage in the use of the labels is small relative to the total number of employers.

To sum up the arguments against the closed shop on the ground that it affects unfavorably the economic conduct of industry, it may be said that the crux of the question is whether or not the "right to hire and discharge" is unduly restricted under the closed shop. The employer may enjoy the use of a valuable label and may be placed on a "fair competitive basis" with other employers. Individually the employer may reap a gain. But in the long run industry will be

carried on less efficiently if by waiting lists or other restrictive devices the union interferes with the employer's hiring and discharging his working force in accordance with his best judgment.

296. The Ethics of the Closed Shop[14]

BY JAMES H. TUFTS

In certain industries in which the workmen are well organized they have made contracts with employers which provide that only union men shall be employed. The psychological motive for the demand for the closed shop is natural enough; the union has succeeded in gaining certain advantages in hours or wages or both; this has required some expense and perhaps some risk. It is natural to feel that those who get the advantage should share the expense and effort, and failing this, should not be admitted to the shop. If the argument stopped here it would be insufficient for a moral justification for two reasons. First, joining a union involves much more than payment of dues. It means control by the union in ways which may interfere with obligations to family, or even to the social order. Hence, to exclude a fellow workman from the opportunity to work because he—perhaps for conscientious reasons—would not belong to the union, could not be justified unless the union could make it appear that it was maintaining a social and not merely a group interest. Second, in some cases unions have sought to limit output. In so far as this is done, not for reasons of health, but to raise prices, the union is opposing the interest of consumers. Here again the union must exhibit a social justification if it is to gain social approval.

On the other hand, it may be noted that the individualist who believes in the competitive struggle as a moral process has no ground on which to declare for "open shop." Exactly the same principle which would permit combination in capital and place no limit on competitive pressure, provided it is all done through free contracts, can raise no objection against combinations of laborers making the best contracts possible. When a syndicate of capitalists has made a highly favorable contract or successfully underwritten a large issue of stock, it is not customary under the principle of "open shop" to give a share in the contract to all who ask for it, or to let the whole public in "on the ground floor." Nor are capitalists accustomed to leave a part of the market to be supplied by some competitor for fear such competitor may suffer if he does not have

[14]Adapted from *Ethics, by John Dewey and James H. Tufts,* pp. 559-561. Copyright by Henry Holt & Co. (1909).

business. When the capitalist argues for the open shop upon the ground of freedom and democracy, it seems like the case of the mote and the beam.

An analogy with a political problem may aid: Has a nation the right to exclude (or tax heavily) goods or persons from other countries? May it maintain a "closed shop"? The policy of the American colonists and of the United States has varied. The Puritans maintained a "closed shop" on religious lines. They came to this country to maintain a certain religion and polity. They expelled several men who did not agree with them. The United States excludes Chinese laborers, and imposes a tariff which in many cases is intended to be prohibitive against the products of other countries. This is done avowedly to protect the laborer, and in so far as it is effective it closes the shop. The maxim, "This is a white man's country," is a similar "closed shop" utterance. On moral grounds the non-union man is in the same category as the man of alien race or country. What, if anything, can justify a nation or group from excluding others from its benefits? Clearly the only conditions are (1) that the group or nation is existing for some morally justifiable end, which (2) would be endangered by the admission of the outsiders. A colony established to work out religious or political liberty would be justified in excluding a multitude who sought to enter it and then subvert these principles. If a union is working for a morally valuable end, e. g., a certain standard of living which is morally desirable, and if this were threatened by the admission of non-union men, the closed shop would seem to be justified. If the purpose were merely to secure certain advantages to a small group, and if the open shop would not lower the standard but merely extend its range of benefits, it is hard to see why the closed shop is not a selfish principle—though no more selfish than the grounds on which the tariff is usually advocated.

E. THE WEAPONS OF INDUSTRIAL CONFLICT

297. The Function of the Strike in Collective Bargaining[15]

BY JOHN MITCHELL

The normal condition of industry is peace. The average workingman, engaged in industries in which strikes occur, loses less than a day a year in this manner. A strike lasts upon the average about twenty-three days, but the average employer carries on his business

[15]Adapted from *Organized Labor*, 299–306. Copyright by the American Book and Bible House (1903).

for thirty years without a strike. The average lockout lasts ninety-seven days, but of a thousand establishments, less than two declare a lockout in the course of a year.

A strike is simply a method of bargaining. If the grocers of a city would refuse to sell their sugar for less than seven cents a pound and the customers would refuse to pay more than six, exactly the same thing would occur as happens in an ordinary strike. A strike does not necessarily involve any form of bitterness; it merely represents a difference between what the buyer of labor is willing to offer, and what the seller of labor is willing to accept. Until the buyer and seller of an ordinary commodity agree as to price and conditions no sale can be effected. Until the wages and conditions of work are agreed upon and acceded to by both employer and workman, the industry must stop.

Strikes thus result from a failure to make a bargain or contract by men who are free to contract. Strikes cannot exist before freedom of contract is accorded. The present conception of a strike is that of workmen and employers exercising their undoubted right to refuse to enter into contracts where the conditions are not satisfactory to them.

It is frequently stated that trade unions desire strikes because they are organized for that purpose. This is not true. The trade union is organized for the purpose of securing better conditions of life and labor for its members, and, when necessary, a strike is resorted to as a means to that end. The same conditions which cause the creation of trade unions are equally answerable for the constant demand for improved conditions for the working class, which demand frequently voices itself in strikes.

Strikes are to be avoided in all cases where the object desired can be obtained by peaceful negotiation. There is nothing immoral, however, in the workingman's striking, just as there is nothing immoral in his wanting higher wages.

298. The Utility of the Strike[16]

BY FRANK JULIAN WARNE

A Strike is simply a piece of industrial machinery, if it may be so termed, which the organization of the Trade Union provides for the attainment of well-defined and laudable objects. Its operation does not necessarily mean the violation of law, or the destruction

[16]Adapted from *The Coal-Mine Workers,* 154–158. Copyright by Longmans, Green, & Co. (1905).

of property, or the taking of human life. All these, where in evidence, are unforeseen incidents to the conduct of a great strike for any long period, and are the manifestations of aroused human passion and class hatred. No one would question the use of a revolver in the hands of a husband defending his wife and children and home from the violation of its sanctity by outlaws, but most of us would condemn the employment of the same weapon in the hands of the outlaws for the accomplishment of their designs. And yet the weapon in both cases is a revolver. So it is with the Strike; it is simply a weapon for the attaining of certain well-defined ends. In the hands of men defending their Standard of Living from the cupidity and inhumanity of particular members of the employing class, the Strike is of the very greatest social value. But like the revolver, it can be misused, as in the case of self-seeking individuals masquerading under trade-union principles, but because of that misuse the weapon should not be condemned. It is no more possible for the Trade Union to prevent the Strike from falling into the hands of those who misuse it, than it is for the Law to prevent revolvers from coming into the possession of outlaws. The Strike has performed and will continue to perform a most useful function in the progress of the trade-union movement, and consequently in the onward march of American civilization.

It is true that the course of the labor movement has been marked by the taking of human life and the destruction of property, just as has been the case in the creation of the State and the establishment of the Church. The why and the wherefore are easily to be explained in the theory of the adjustment of the principles of new institutions to those created for society by older established ones. This is not said as an apology for the taking of human life in strikes. No one regrets this manifestation of the progress of the Trade Union more than does the writer, and yet if he had to choose between preserving the lives that have been so lost and retaining the Trade Union as an institution, it would not be in favor of the former. This decision would be made in the firm belief that in the attainment of its objects—in throwing more safeguards around the workingman, especially in hazardous employments; in securing better sanitary arrangements in factories and mills, in preventing the employment of children at tender ages, in securing higher wages, in reducing the hours of employment, in raising the Standard of Living, and in innumerable other ways—in these directions the Trade Union is saving for society more lives than have been taken in all the industrial conflicts of which history gives any record.

The Strike justifies itself either as a weapon of offense or defense in the protection, as a last recourse, of the Standard of Living of the American workingman. It is, economically, simply the refusal of a number of workingmen, usually organized in an association, to sell their labor for less than a stipulated price or to work under other than specified conditions of employment, coupled with the refusal of the purchaser of that labor—the employer—to accede to the demands.

299. The Striker and the Worker[17]

BY SOLON LAUER

I am perfectly willing that you should quit your job, whenever you do not like it. You may quit individually, or you may all quit by agreement. It may cause your employers and us, the public, much inconvenience and expense; but I do not see how we can refuse you that right if you choose to exercise it.

But there your rights cease. If, now, your employers can find other men to take your places, why shall they not do so? Have not these men as good a right to work as you have to refuse to work? And will you march upon them with stones and clubs, and assault them with dynamite, in order that you may carry your point with your employers? When you play the Dog in the Manger, my brothers, there is nothing for it but to beat you into submission. Eternal Justice, seated calm and impassive above all our petty quarrels, demands it. If the machinery of Justice be not wholly wrecked and ruined here below, it must be set in motion against your selfish plot.

This is not *my* affair. I can get on without your cars. Legs were before electrics. If there were nothing but my interests involved, or those of my neighbors, you and your employer should sit growling at one another, or fly at each other's throat, until one or other were wholly vanquished and demolished. But there are the Rights of Man to be considered; yea, the Rights of the Workingman, which ought to be most dear to *your* hearts. You do not want these jobs on the present terms. These men *do* want them, having until now none at all, or worse ones. Shall their rights be ignored and violated, that you may carry your point?

[17]From *Social Laws,* 189–190. Published by the Nike Publishing Co. (1901).

300. Wanted—Jobs Breaking Strikes[18]

We break strikes—also handle labor troubles in all their phases. We are prepared to place secret operatives who are skilled mechanics in any shop, mill or factory, to discover whether organization is being done, material wasted or stolen, negligence on the part of employees, etc., etc. . . . . We guard property during strikes, employ non-union men to fill places of strikers, fit up and maintain boarding-houses for them, etc. Branches in all parts of the country. Write us for references and terms. The Joy Detective Agency, Incorporated, Cleveland, Ohio.

301. The Efficacy of Secret Service[19]

Secret service properly applied with the right men correctly placed can be made extremely profitable when conditions are studied and co-operation given. Such service is our specialty, and for that reason *we maintain practical men of all trades and occupations, both union and non-union.* In their daily reports they suggest improvements and new ideas; *also detail the agitating, dishonest,* non-producing, and retarding conditions.

Our operative, when engaged by you, is, to everyone but yourself, merely an employee in your establishment, and whatever he receives as wages is credited as part payment for his detective service. Daily typewritten reports are mailed to our clients. These operatives are continually under direct supervision of the management of this agency.

Within the heart of your business is where we operate, down in the dark corners, and in out-of-the-way places that cannot be seen from your office or through your superintendent or foreman.

If it is of interest to you to know today what occurred in your plant yesterday, and be in a position to correct these faults tomorrow, we would be pleased to take the matter up with you further, and respectfully ask an interview for one of our representatives.

302. The Boycott of the Butterick Company[20]

BY A. J. PORTENAR

It was my fortune to take a very active part in the boycott instituted against the products of the Butterick Company by Typographi-

[18]Adapted from an advertisement appearing in *American Industries,* August 15, 1907.

[19]This letter is alleged to have been sent out by the William J. Burns Detective Agency. Quoted from Laidler, *Boycotts and the Labor Struggle,* 295.

[20]Adapted from *Organized Labor,* 90–92. Copyright by the Macmillan Company (1912).

cal Union No. 6 in 1906, and later carried on by the International Typographical Union. This boycott was, I verily believe, better organized, more determined, and more damaging to the parties it was aimed at than any other I have knowledge of, not excepting that against the Buck Stove and Range Company, which is more widely known only because of the adventitious circumstances that brought the highest officials of the American Federation of Labor into court. Not only in the United States and Canada, but in Cuba, Germany, and Australia, the International Typographical Union cut into the sales and captured the customers of the Butterick Company. Wherever a typographical union was organized, there, in greater or less degree, the boycott was pushed. The expected court proceedings were in evidence at all times. There were arrests, injunctions, actions for criminal contempt. In short I doubt if a more thorough trial of the efficiency of the boycott has ever been made.

Now what about results? That the Butterick people were considerably damaged they themselves admitted. Eventually the Butterick house was unionized again, but it is not possible for us to say to what extent the boycott was responsible for that consummation. It is within my knowledge, however, that it had been decreasing in intensity for two years before an agreement with the company was reached, in 1911, and that at the time of settlement the boycott was practically dormant.

I was very active in this matter, and from the experience thus gained I have reached definite conclusions. We expended a large amount of money; how large I do not know. There was a continuous distribution of printed matter and of comparatively expensive novelties bearing appropriate inscriptions. There were speakers sent to tour the country. There was an organizer whose sole duty it was to further the boycott. There was a prominent lawyer engaged by the year. So far as money could compass our object, we were not niggardly. But money is only one of the essential factors a union needs in the conduct of an affair of this kind. Far more than money, it must have the enthusiastic devotion of its members to the continuous, laborious, and unpleasant work needful to make the expenditure of money effective. This, with a few exceptions, I found it impossible to get. And even these few, in the course of time, finding themselves unsupported by the great majority, began to get lukewarm, and at last ceased to labor in a field, so vast and so deserted. It was not that we had no success; the Butterick Company is the best witness to the contrary. But it is scarcely believable how unremittingly we had to labor to save what we had

done one day from becoming useless the next. And this fact eventually led to the abandonment of the boycott and the slow recovery by the Butterick Company of the ground it had lost. Therefore my opinion is that no boycott can completely and permanently accomplish the result sought, and very few will do nearly so much in that direction as the one here spoken of, which finally became a failure.

303. Ostracism as an Industrial Weapon[21]

BY FRANK JULIAN WARNE

In controlling the ordinary supply of labor in the industry, committees of union men visit personally every man employed who has not already been captured by the organizers, and his position is definitely ascertained. This is one of the most important uses of picketing, by means of which men are met on their way to and from work. To the employees continuing at work the pickets at first have recourse to the powers of friendly and peaceable persuasion, but if these fail to induce the men to join the union, or, if not this, at least to remain away from work, then upon the non-union men are brought to bear social forces verging upon lawlessness, and overstepping the safeguards the State has thrown around individual liberty, which only a strong public sympathy with the cause of the union will support. The most important of these social forces is ostracism.

Ostracism is a stronger social force in maintaining a high standard of personal conduct than most of us realize. It means banishment or exclusion from social intercourse or favor, and is usually employed by a particular group against members of its own class or craft. Its most effective weapon is some term of reproach coined for the purpose. Lawyers, for example, who do not come up to the standard set for that profession by its dominant group, are ostracised and termed "shysters." So it is with the medical profession: physicians engaged in questionable practices which the dominant group denounce are ostracised by the more reputable practitioners with the reproachful term "quack." The same social force is at work among the industrial classes. Union men set a standard as to wages and conditions of employment in a particular industry, and those workingmen who fall below that measurement, in offering their labor for a less price, are ostracised and denounced as "scabs." Whether the group be doctors or lawyers or workingmen, whatever it adopts as

[21]Adapted from *The Coal-Mine Workers,* 160–165. Copyright by Longmans, Green, & Co. (1905).

the standard of measuring conduct along particular lines is sooner or later taken up by the broader social grouping in the community and accepted as its standard of judgment. This is particularly and strikingly true of a community closely identified with an industry the livelihood of whose members depends upon the industry's activities and in which a dominant group (usually members of a Trade Union) creates the industrial standard. This explains the attitude of hostility an industrial community exercises towards the "scab." It explains, also, perhaps, how men far removed from the influence of the working classes can look upon the "scab" as a hero.

The social force of ostracism, put into operation by the working of the Trade Union, is directed, and particularly so in strike times, not only against the "scab" himself, but also along all those channels of social relations affecting him and which might have influence upon him in bringing about action conformable to the standard of the dominant group. The strength of this weapon in the strike of the anthracite-mine employees in 1902 caused union men and their families to refuse to associate with the workingman who continued his employment in the mines; it expelled a prominent and otherwise highly respected citizen from a benevolent society which had for its object the assisting of sick members and the defraying of a part of the funeral expenses of those who died, and of which he had been a member in good standing for more than twenty-seven years; it caused children of striking mine workers not only to refuse to attend the school of a woman teacher whose aged father was a watchman at one of the mines, but they also demanded that she be discharged. Children of union miners would not attend Sunday-school with their former playmates whose relatives continued at work; members of the Lacemakers' Union employed at a silk-mill refused to work alongside girls whose fathers and brothers would not strike; clerks were dismissed from stores and business establishments because they were related to men who continued at work in the mines; even promises of marriage were broken through relatives of one or the other of the contracting parties being non-union workers. The "scab" was not infrequently held up to public scorn and ridicule by the publication of his name in the "unfair list" of the newspapers in the mining towns as being "unfit to associate with honorable men;" he was represented by name on signs attached to effigies dangling from electric-light, telegraph, and telephone poles and wires and from trees in front of his home and along the highways and streets; a grave in his yard with his name placed upon the board at the head to represent a tombstone not infrequently confronted him; the sign of "the skull and cross-bones" was painted on

his house, and in innumerable other ways, conceivable only by workingmen whose imaginative faculties have been aroused by the desire for persecution of others who oppose a cause which is so vital to their home and family, was created a public sentiment against the non-union employee.

304. The Scab[22]

BY DYER D. LUM

The non-unionist is but an indirect enemy; in withholding his aid he by so much weakens the common line of defense. Though often his acts may directly, without conscious effort, aid the enemy, he need not be a traitor to his fellow toilers. Every great movement has some object of superlative loathing; its Judas Iscariots, its Benedict Arnolds, its Pigotts, its paid spies and informers, its Pinkerton thugs—men deaf to all honor, blind to mutual interest, dead to all but the miserable cravings of their shriveled souls. In the industrial conflict the instinct of workers has significantly termed its type of this species "scab!" Loud have been the appeals for sympathy with the workman who falls out from the line to better his condition, or relieve the distress of a starving wife and family. But to prevent just such contingencies is the mission of the union. One who is forced to the necessity of wage labor and refuses to share the common danger, but either openly or stealthily goes over to the enemy to accept his terms, is a deserter. By his act he has sundered the social bonds of mutual interest which united him to us, has served notice that he asks no aid, expects no sympathy, seeks no quarter. *At his acted word we take him.*

The time has passed for circumlocution in handling this subject. If Trade-Unionism has a logical ground for existence, if organized resistance is preferable to slavish submission, if the social ties which unite us in mutual alliance are of higher validity than the selfish cravings of an unsocial nature, the relation between the Trade-Union and its psycophantic enemy, the "scab," is that existing between the patriot and the paid informer. No sentimentalism will attenuate, no olive branch will be extended; no tears will be shed over whatever misfortune befalls him, nor aught but utter loathing be felt for him. He stands forth by his own act recreant to duty. He is bankrupt in honor, infidel to faith, destitute of social sympathy, and a self-elected target. We here but express clearly what workingmen feel in every industrial crisis, and we deliberately express it that at *all* times such men be regarded as possible "informers" and traitors.

[22]Adapted from *Philosophy of Trade Unions,* 13–14. Published by American Federation of Labor (1892).

But let us hear his defense. We are told that Trade-Unionism is an encroachment upon individual right, that the toiler, whether union or non-union, has the privilege to sell his labor as best suits himself. To this we reply: (1) The toiler does not enter the market under equal conditions. (2) Monopoly over land, the source of wealth, and over exchange, its medium of distribution, gives to the capitalist an economic advantage in the struggle. (3) The legalization of privilege forces upon the unprivileged the necessity of combination in order to sustain themselves. (4) The logic of events has settled the line of action; it lies neither in the prayer-meeting nor in the polling-booth, but in mutual accord of action and determined self-help.

Industrial combination, under such circumstances, is as necessary for the exploited toiler, as military organization for an invaded people. We *are* in a state of industrial war. Every appeal to legislation to do aught but *undo* is as futile as sending a flag of truce to the enemy for munitions of war. The growth of solidarity evidenced in wider federation, in leading to broader views of the issue, and deeper sense of interrelations, can but intensify this feeling toward the "scab."

Unions have already demonstrated their power to rise above the subsistence level, where otherwise they would be. It is our duty, not only to ourselves, but to our families, to enlarge the scope of union among our fellow craftsmen. Our task is to be true to the need of the hour in order to be the better fitted for the unknown needs of the struggle tomorrow. The lines are being closer drawn, and the exigencies of the situation demand concert of action, both against the combined enemy and the traitor who would betray our cause by a shot from the rear. In such a struggle for a higher civilization—a struggle forced upon us—the industrial recreant is a social traitor.

Out of conflict all progress has come. The history of the Labor Movement, its increasing self-reliance, its growing indifference to "labor politicians," its development of sturdy independence and manhood, all alike indicate change in its methods among future possibilities. But with all this, and its accompanying wider sympathy and extension of mutual ties, the feeling of loathing toward the "scab" has intensified.

To sum up, to assert egoism against mutual interests is unsocial and hence a denial of the mutual basis upon which equitable relations alone can exist. Thus the "scab" is not merely unsocial, but by his acted word virtually places himself with the industrial invaders

and becomes an enemy. Equal freedom cannot be strained to mean a denial of mutual interests. Social evolution is not a mere theory, but a record of facts, and no fact is more strongly brought out than that progress has resulted only in so far as mutual interests have been recognized. We do not *institute* them, they *compel* us.

Therefore, primarily as human beings, become so by social evolution, and by the social environment in which the present struggle is conditioned, and recognizing as the goal of industrial advance the mutuality of interests involved in the assertion of equal freedom, in strict accord with all sociological deductions, and with the utmost submission to the higher law permeating social growth, we reverently raise our hats to say prayerfully: "To hell with the 'scab'!"

F. SCIENTIFIC MANAGEMENT AND UNIONISM

305. Labor and Efficiency[23]

BY FREDERICK W. TAYLOR

It is safe to say that no system or scheme of management should be considered which does not in the long run give satisfaction to both employer and employee, which does not make it apparent that their best interests are mutual, and which does not bring about such thorough and hearty co-operation that they can pull together instead of apart. It cannot be said that this condition has as yet been at all generally recognized as the necessary foundation for good management. On the contrary, it is still quite generally regarded as a fact by both sides that in many of the most vital matters the best interests of employers are necessarily opposed to those of the men. In fact, the two elements which we will all agree are most wanted on the one hand by the men and on the other hand by the employers are generally looked upon as antagonistic.

What the workmen want from their employers beyond anything else is high wages, and what employers want from their workmen most of all is a low labor cost of manufacture.

These two conditions are not diametrically opposed to one another as would appear at first glance; on the contrary, they can be made to go together in all classes of work, without exception, and in the writer's judgment the existence or absence of these two elements forms the best index to either good or bad management.

The only condition which contains the elements of stability and permanent satisfaction is that in which both employer and employees

[23]Adapted from "Shop Management," in the *Transactions of the Society of Mechanical Engineers,* XXIV, 1343–1347 (1903).

are doing as well or better than their competitors are likely to do, and this in nine cases out of ten means high wages and low labor cost, and both parties should be equally anxious for these conditions to prevail. With them the employer can hold his own with the competitors at all times and secure sufficient work to keep his men busy even in dull times. Without them both parties may do well enough in busy times, but both parties are likely to suffer when work becomes scarce.

The possibility of coupling high wages with a low labor cost rests mainly upon the enormous difference between the amount of work which a first-class man can do under favorable circumstances and the work which is actually done by the average man.

That there is a difference between the average and first-class man is known to all employers, but that the first-class man can do in most cases two to four times as much as is done on an average is known to but few, and is fully realized only by those who have made a thorough and scientific study of the possibilities of men.

The writer has found this enormous difference between the first-class and average man to exist in all of the trades and branches of labor which he has investigated, and this covers a large field, as he, together with several of his friends, has been engaged with more than usual opportunities for twenty years past in carefully and systematically studying this subject.

It must be distinctly understood that in referring to the possibilities of a first-class man the writer does not mean what he can do when on a spurt or when he is overexerting himself, but what a good man can keep up for a long term of years without injury to his health, and become happier and thrive under.

The second and equally interesting fact upon which the possibility of coupling high wages with low labor cost rests, is that first-class men are not only willing but glad to work at their maximum speed, providing they are paid from 30 to 100 per cent more than the average of their trade.

The exact percentage by which the wages must be increased in order to make them work to their maximum is not a subject to be theorized over, settled by boards of directors sitting in solemn conclave, nor voted upon by trade unions. It is a fact inherent in human nature and has only been determined through the slow and difficult process of trial and error.

The writer has found, for example, after making many mistakes above and below the proper mark, that to get the maximum output for ordinary shop work requiring neither especial brains, very close application, skill, nor extra hard work, such, for instance, as the

more ordinary kinds of routine machine-shop work, it is necessary to pay about 30 per cent more than the average. For ordinary day labor requiring little brains or special skill, but calling for strength, severe bodily exertion and fatigue, it is necessary to pay from 50 to 60 per cent above the average. For work requiring special skill or brains, coupled with close application but without severe bodily exertion, such as the more difficult and delicate machinist's work, from 70 per cent to 80 per cent beyond the average. And for work requiring skill, brains, close application, strength, and severe bodily exertion, such, for instance, as that involved in running a well-run steam hammer doing miscellaneous work, from 80 per cent to 100 per cent beyond the average. Men will not work at their best unless assured a good liberal increase, which must be permanent.

It is the writer's judgment, on the other hand, that for their own good it is as important that workmen should not be very much overpaid, as that they should not be underpaid. If overpaid, many will work irregularly and tend to become more or less shiftless, extravagant, and dissipated. It does not do for most men to get rich too fast. The writer's observation, however, would lead him to the conclusion that most men tend to become more instead of less thrifty when they receive the proper increase for an extra hard day's work, as, for example, the percentages of increase referred to above. They live rather better, begin to save money, become more sober, and work more steadily. And this certainly forms one of the strongest reasons for advocating this type of management.

306. The Nature of Scientific Management[24]

BY MAURICE L. COOKE

What we want in any industrial establishment, if we are to reach the highest point in productivity, is to have every individual use his highest powers to the best advantage. This is the final goal of scientific management. It is the goal both for the individual and for society. If you can picture a society in which every unit is using his highest faculties to the best advantage, you will see that it approximates the millennium.

The moment you adopt this as a standard, however, you must frame your organization so that every employee, from the humblest to the highest, is given a chance to exercise his highest powers to the best advantage. He must not only not be hindered, but he must

[24]Adapted from "The Spirit and Social Significance of Scientific Management," in the *Journal of Political Economy*, XXI, 485–487 (1913).

be helped, and helped to the extent of pointing out and developing faculties and powers of which he may have been unaware. Under scientific management we think that we are learning how to do this. Alfred Marshall has called attention to the fact that perhaps half the brains of the world are in the so-called working classes and that "of this a great part is fruitless for want of opportunity." Under the new methods this great storehouse of wealth will be tapped, not we hope for the benefit of the few, but for the benefit of all.

To define scientific management is no easy task. Hugo Diemer says that Mr. Taylor

> considers a manufacturing establishment just as one would an intricate machine. He analyzes each process into its ultimate simple elements and compares each of these simplest steps or processes with an ideal or perfect condition. He then makes all due allowance for rational and practical conditions and establishes an attainable commercial standard for every step. The next process is that of attaining, continuously, the standard, involving both quality and interlocking, or assembling, of all these primal elements into a well-arranged, well-built, smooth-running machine.

Mr. Taylor says that the philosophy of scientific management is embraced under these four principles:

> 1. The development of a science in place of "rule of thumb" for each *element* of the work.
> 2. The scientific selection and training of the workman.
> 3. The bringing of the science and the scientifically trained workman together through the co-operation of the management with the man.
> 4. An almost equal division of the work and the responsibility between the management and the workmen, the management taking over all work for which they are better fitted than the workmen, while in the past almost all of the work, and the greater part of the responsibility, were thrown upon the workman.

Quite informally, scientific management may be thus defined:

1. It is a definite working policy applicable wherever human effort is put forth.

2. It is the introduction of the laboratory method in everyday affairs.

3. It is the acceptance of the dictates of science instead of those of personal opinion and tradition.

4. It is the establishment of the fact that not to know is no crime—that the crime is not being willing to find out.

5. It is a type of co-operation more intensive than the world has yet seen.

6. It is filling in—not bridging—the chasm between capital and labor.

7. It is making our industrial life square up with the best we know in our personal and social relations.

8. It involves a very radical change in the attitude both of the men and of the management to the work on which they are mutually engaged.

Practically everything that is done in developing scientific management in an establishment has for its object the setting of tasks. A task is simply a fair day's work and—let us not forget—one that can be repeated day in and day out, year in and year out, if necessary, without detriment to the physical, mental and moral well-being of the person performing it. Unless you are able to set tasks you cannot have scientific management.

307. The Attitude of Organized Labor Toward Scientific Management[25]

We are opposed to any system of shop management which requires one man to stand over another, timing him with a stop watch in order to speed him up beyond his normal capacity. In addition to the brutality of such a proceeding, no stop watch time study can possibly be accurate. Every physical act performed by man is preceded by a mental process. The greater the amount of skill required in the work, the greater the mental process preceding the physical expression of it, and there is no method known to efficiency engineers or others by which a time study can be made by a stop watch or any other time-measuring device of the mental process which precedes the physical act. The mental process being a necessary part of the work itself, the failure to make a time study of that operation of the work makes the study inaccurate, and secondly, worthless as a basis for computing compensation.

To establish a bonus or premium system upon such a time study is wrong, induces the workman to toil beyond his normal capacity, and the whole system has a tendency to wear the worker to a nervous wreck, destroy his physical and mental health, and ultimately land him as a charge upon the community in some of our eleemosynary institutions.

308. Modern Industry and Craft Skill[26]

The one great asset of the wage worker has been his craftsmanship. We think of craftsmanship ordinarily as the ability to manipulate skilfully the tools and materials of a craft or trade. But true

[25]Adapted from resolutions passed by the National Convention of the American Federation of Labor, November 22, 1912: from *Report of Proceedings,* 346.

[26]An editorial with the above caption in the *International Moulders' Journal,* LI, 197–198 (1915).

craftsmanship is much more than this. The really essential element in it is not manual skill and dexterity, but something stored up in the mind of the worker. This something is partly the intimate knowledge of the character and uses of the tools, materials, and processes of the craft which tradition and experience have given the worker. But beyond this and above this, it is the knowledge which enables him to understand and overcome the constantly arising difficulties that grow out of variations, not only in tools and materials, but in the conditions under which the work must be done.

In the past for the most part the skilful manipulation of the tools and materials of a craft and this craftsmanship of the brain have been bound up together in the person of the worker and have been his possession. And it is this unique possession of craft knowledge and craft skill on the part of a body of wage workers—that is, their possession of these things and the employer's ignorance of them—that has enabled the workers to organize and force better terms from the employers. On this unique possession has depended more than on any other one factor the strength of trade unionism and the ability of unions to improve the conditions of their members.

This being true, it is evident that the greatest blow that could be delivered against unionism and the organized workers would be the separation of craft knowledge from craft skill. For if the skilled use of tools could be secured from workmen apart from the craft knowledge which only years of experience can build up, the production of "skilled workmen" from unskilled hands would be a matter in almost any craft of but a few days or weeks; any craft would be thrown open to the competition of an almost unlimited labor supply; the craftsmen in it would be practically at the mercy of the employer.

Of late this separation of craft knowledge and craft skill has actually taken place in an ever-widening area and with an ever-increasing acceleration. Its process is shown in the two main forms which it has been taking. The first of these is the introduction of machinery and the standardization of tools, machinery, products, and process, which make production possible on a large scale and the specialization of the workmen. Each workman under such circumstances needs and can exercise only a little craft knowledge and a little craft skill. But he is still a craftsman, though only a narrow one and subject to much competition from below. The second form, more insidious and more dangerous than the first, but to the significance of which most of us have not yet become aroused, is the gathering up of all this scattered craft knowledge, systematizing it and concentrating it in the hands of the employer, and then doling

it out again in the form of minute instructions, giving to each worker only the knowledge needed for the mechanical performance of a particular relatively minute task. This process, it is evident, separates skill and knowledge even in their narrow relationship. When it is completed the worker is no longer a craftsman in any sense, but is an animated tool of the management. He has no need of special craft knowledge or craft skill, or any power to acquire them if he had, and any man who walks the streets is a competitor for his job.

There is no body of skilled workmen today safe from the one or the other of these forces tending to deprive them of their unique craft knowledge and skill. Only what may be termed frontier trades are dependent now on the all-round craftsman. These trades are likely at any time to be standardized and systematized and to fall under the influence of this double process of specialization. The problem thus raised is the greatest one which organized labor faces. For if we do not wish to see the American workmen reduced to a great semi-skilled and perhaps little organized mass, a new mode of protection must be found for the working conditions and standards of living which unionism has secured, and some means must be discovered for giving back to the worker what he is fast losing in the narrowing of the skill and the theft of his craft knowledge. It is another problem which the organized workmen must solve for themselves and society.

G. UNIONISM AND THE ANTI-TRUST LAWS

309. The Monopoly of Labor[27]

To the House of Representatives:

I return, without my approval, the bill (H. R. 28775,) being "An act making appropriations for the sundry civil expenses of the Government for the fiscal year ending June 30, 1914, and for other purposes."

My reasons for failing to approve this important appropriation bill are found in a provision which has been added to that appropriating $300,000 for the enforcement of the anti-trust laws in the following language:

"Provided, however, That no part of this money shall be spent in the prosecution of any organization or individual for entering into any combination or agreement having in view the increasing of wages, shortening of hours, bettering the condition of labor, or for

[27]Adapted from the President's message of March 3, 1913, vetoing the Civil Appropriations Bill.

any act done in furtherance thereof not in itself unlawful: Provided, further, That no part of this appropriation shall be expended for the prosecution of producers of farm products and associations of farmers who co-operate and organize in an effort to and for the purpose to obtain and maintain a fair and reasonable price for their products."

This provision is class legislation of the most vicious sort. If it were enacted as substantive law and not merely as a qualification upon the use of monies appropriated for the enforcement of the law, no one, I take it, would doubt its unconstitutionality. A similar provision in the laws of the State of Illinois was declared by the Supreme Court to be an invasion of the guarantee of the equal protection of the laws contained in the fourteenth amendment of the Constitution of the United States,[28] although the only exception in that instance from the illegality of organization and combinations, etc., declared by that statute, was one which exempted agriculturists and live-stock raisers in respect to their products or live stock in hand from the operation of the law leaving them free to combine to do that which, if done by others, would be a crime against the State.

The proviso is subtly worded, so as, in a measure, to conceal its full effect, by providing that no part of the money appropriated shall be spent in the prosecution of any organization or individual "for entering into any combination or agreement having in view the increasing of wages, shortening of hours, or bettering the condition of labor," and so forth. So that any organization formed with the beneficent purpose described in the proviso might later engage in a conspiracy to destroy by force, violence, or unfair means any employer or employee who failed to conform to its requirements; and yet, because of its originally avowed lawful purpose, it would be exempt from prosecution, so far as prosecution depended upon the money appropriated by this act, no matter how wicked, how cruel, how deliberate the acts of which it was guilty. So, too, by the following sentence in the act such an organization would be protected from prosecution "for any act done in furtherance" of the "increasing of wages, shortening of hours, or bettering the condition of labor" not in itself unlawful. But under the law of criminal conspiracy acts lawful in themselves may become the weapons whereby an unlawful purpose is carried out and accomplished.[29]

[28] *Connelly* v. *United Sewer Pipe Co.*, 184 U. S. 540.

[29] *Shawnee Compressed Coal Co.* v. *Anderson*, 209 U.S. 423–434; *Aikens* v. *Wisconsin*, 195 U.S. 194–206; *Swift* v. *United States*, 196 U.S. 375–396; *United States* v. *Reading Co.*, 226 U.S. 324.

An amendment almost in the language of this proviso, so far as it refers to organizations for the increasing of wages, etc., was introduced in the Sixty-first Congress, passed the House, was rejected in the Senate, and after a full discussion in the House, failed of enactment. Representative Madison, speaking in favor of the amendment which struck out the proviso, characterized it as an attempt to "write into the law, so far as this particular measure is concerned, a legalization of the secondary boycott. The laws of the country," he pointed out, "are liberal to the workingman. He can strike, he can agree to strike, and he can apply the direct boycott, but when it comes to going further and so acting as to impede and obstruct the natural and lawful course of trade in this country, then the law says he shall stop. And all in the world that this anti-trust act does is to apply to him that simple and proper rule, that he, too, as well as the creators of trusts and monopolies, shall not obstruct the natural and ordinary course of trade in the United States of America." "I believe," he added, "in the high aims, motives, and patriotism of the American workingman, and do not believe that, rightly understanding this amendment, they would ask us to write it into the law of this Republic."[30]

It is because I am unwilling to be a party to writing such a provision into the laws of this Republic that I am unable to give my assent to a bill which contains this provision.

WILLIAM H. TAFT

310. The Charter of Industrial Freedom[31]

BY SAMUEL GOMPERS

The Sherman anti-trust law was repeatedly used against organizations of workers on the ground that they were combinations in illegal restraint of trade. The injunctive process was employed to prevent all such "combinations" from carrying out their legitimate purposes. There was no relief in sight. Rather these perversions of the real purpose of the law were becoming habitual tactics in industrial disputes and established as precedents in legalism.

The judicial philosophy upon which these practices were based harked back to the olden days when the workers were villeins or serfs. Then their bodies and their labor power were the property of the masters or feudal overlords. The labor of a human being,

[30] *Congressional Record,* 61st Cong., 2d sess., 8850.

[31] Adapted from an article with the above caption in the *American Federationist,* XXI, 962–963, 971–972 (1914).

labor power, is inseparable from the living bodies of the workers. It is intimately associated with the physical personality, and is the outward expression of the mentality, the ideas, the individuality of the workers. The labor of a human being, labor power, is the creative expressions of inner mentality. It cannot be a commodity or an article of commerce unless human beings are nothing but material things or legally held as property.

After centuries of struggle the toilers established their physical freedom, but industrial freedom was denied them under judicial interpretation of their rights. Judicial theory looks backward for its sanctions; it is guided by precedents. Judicial opinions square themselves by the past, not by the present. There resulted a strange legal anomaly; workers were free, but part of their personality, their labor power, was the property of their employers who had property rights in the labor power of employees. For it is *impossible to separate the power to labor, the power to produce, from the bodies of the workers.*

Denial of industrial freedom robs physical freedom of its reality and value. All Americans have had the right to "life, liberty, and the pursuit of happiness" since the revolution based on these principles found in the Declaration of Independence, and the establishment of our Republic. But life is something bigger than a declaration of political principle. The workers of America spend most of their lives in mines, workshops, factories, stores, etc., and have felt all the bitterness of industrial unfreedom. They have been denied real choice in matters relating to their employment; they have been denied the right to promote their own welfare; they have been denied the right to life in its real significance.

Under modern industrial conditions workers as individuals are powerless to protect themselves against employers' aggressions, or to increase wages, shorten hours of labor, and improve their general conditions of work and life. Only through organization can the workers present their views of rights, defend or advance their interests, seek redress of grievances, and establish their best concepts and ideals of justice. The development of large-scale industries and trusts makes labor organization doubly imperative. There was no longer the slightest probability of individual personal contact between employers and employees. Absentee employers conducted all dealings with employees through superintendents or foremen who were held responsible only for efficiency and profits. Concentration of industry and trust organization dehumanized the relations between employers and employees and thus helped to retain the theory that labor power—the labor of a human being—is

a commodity. Trusts waged war upon labor organizations with well-nigh incredible savagery and with every conceivable method and device. Against these attacks the workers had to protect themselves in the industrial and the legal fields. It was necessary to secure some change in the Sherman anti-trust law—a law that had proved powerless to stay the increasing number of trusts but had deprived workers of their rights and their liberty.

The labor sections of the Clayton Anti-Trust Act are a great victory for organized labor. In no other country in the world is there an enunciation of fundamental principles comparable to the incisive, virile statement in section 6.

Those words, *the labor of a human being is not a commodity or article of commerce,* are sledge-hammer blows to the wrongs and injustice so long inflicted upon the workers. The declaratory legislation, *"The labor of a human being is not a commodity or article of commerce,"* is the Industrial Magna Charta upon which the working people will rear their structure of industrial freedom. Industrial freedom is necessary for human welfare and progress. The victory won by the united American labor movement is a victory for all humanity.

311. Legal Exemption of Labor Combinations[32]

BY ALLYN A. YOUNG

The sixth section of the Clayton act, exempting labor combinations from the condemnation of the anti-trust laws, is as follows:

> The labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws.

The declaration, "The labor of a human being is not a commodity or article of commerce," is little more than an empty *blague,* and the permission given to individual members of labor organizations to "lawfully carry out the legitimate objects thereof" is at once harmless and unavailing. If there is any effectiveness in the section it is in the clause, "nor shall such organizations, or the members thereof,

[32]Adapted from "The Sherman Act and the New Anti-Trust Legislation," in the *Journal of Political Economy,* XXIII, 417–421 (1915).

be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws."

Now no action has ever been brought for the dissolution of a labor union under the Sherman act. But Mr. Gompers, testifying before the House Committee on the Judiciary, said that labor combinations exist only by tolerance of the Attorney-General. If Mr. Gompers' interpretation of the Sherman act is correct, if that statute condemns unions merely because they are combinations for collective bargaining, then it must be admitted that their specific exemption in this section is a matter of some importance. But there are reasons for thinking Mr. Gompers mistaken.

In the first place, there is enough difference between the sort of "monopoly" which a labor union seeks to establish and such monopolistic industrial combinations as are clearly condemned by the Sherman act to make it uncertain whether the courts would put them in the same category. One is in principle an inclusive, the other an exclusive, monopoly. It is true that railroad mergers, such as were condemned in the Northern Securities and Union Pacific cases, are in some respects "inclusive" combinations. But the St. Louis Terminal Railroad case is a more instructive precedent. The railroad in question has a virtual monopoly of terminal facilities in St. Louis. A suit for dissolution was brought against it under the Sherman act. The Supreme Court did not grant a dissolution order, but merely directed the company so to reconstruct its organization as to provide that new companies might participate in its ownership and be given the advantage of its services on equal terms with the railroads then in control of it. The parallel is not perfect, for the Terminal Railroad of St. Louis is a natural monopoly. But the case suggests that if similar suits had been brought against labor combinations the outcome might have been that the court would merely have insisted that admission to union membership must be granted to all applicants on fair terms.

In the second place, it is doubtful even whether the courts would have deemed themselves authorized by the Sherman act to interfere in any degree either with the conditions of admission to union membership or with the ordinary trade agreement which unions attempt to enforce. For agreements among working-men to fix wages or hours or conditions of employment have only an indirect and incidental effect upon interstate trade or commerce, while the courts have consistently held that the Sherman act covers only agreements which have a direct and primary effect upon such trade or commerce.

In the third place the Sherman act has been brought to bear upon working-men, not because labor unions in themselves are labor

monoplies, and as such are in restraint of competition, but merely because strikes and boycotts have the effect of interfering in some degree with the free flow of goods from one state to another. This is, of course, what the labor interests wanted changed. It is not clear, however, that this section alters the law in this respect. I cannot imagine that the courts will hold that the provision that neither labor organizations nor their members shall be "held or construed to be combinations or conspiracies in restraint of trade" covers cases of this kind. If it does, a doubt as to the constitutionality of the section at once arises. It is true that the Supreme Court has recently held that a Missouri anti-trust statute is not in violation of the federal Constitution, despite the fact that the statute specifically exempts labor combinations. But with respect to the matter in hand the question would be whether an exemption of such interference with the "free flow of commerce" as comes from the activities of labor combinations would not amount to a denial of "due process of law" to the members of such other combinations as are condemned for similarly interfering with commerce. It is not a question of the legality of the restraint of competition among working-men. The question is whether labor combinations may restrain *interstate commerce in goods* while such restraint is not permitted to other combinations.

There is, however, another provision in the Clayton act which may give labor combinations virtual immunity from the operations of the Sherman act. This section (the twentieth) prohibits the granting of injunctions by federal courts in labor disputes "unless necessary to prevent irreparable injury to property or to a property right," and specifies that such injunction shall not prohibit striking, picketing, or boycotting. This in itself does not prohibit civil suits for damages or criminal persecutions under the Sherman act. Probably it does not prohibit the granting of injunctions on the petition of the government, for the general provisions of the section apply only to cases "between employers and employees." But, so far as the delimitation of the scope of the Sherman act is concerned, such considerations as these become unimportant in view of the fact that the section concludes with the sweeping statement, "nor shall any of the acts specified in this paragraph be considered or held to be violations of any law of the United States." This is the real exemption section. Its constitutionality is a matter about which there is some doubt, but its unconstitutionality is by no means assured. If the courts sustain it, labor unions will have been effectively freed from the restraints of the Sherman act.

H. REVOLUTIONARY UNIONISM

312. Sabotage

a) *A Definition of Sabotage*[33]

BY ARTURO M. GIOVANNITTI

Sabotage is:

1. *Any conscious and wilful act on the part of one or more workers intended to slacken and reduce the output of production in the industrial field, or to restrict trade and reduce the profits in the commercial field, in order to secure from their employers better conditions or to enforce those promised or maintain those already prevailing, when no other way of redress is open.*

2. *Any skilful operation on the machinery of production intended not to destroy it or permanently render it defective, but only temporarily to disable it and put it out of running condition in order to make impossible the work of scabs and thus to secure the complete and real stoppage of work during a strike.*

Whether you agree or not, sabotage is this and nothing but this. It is not destructive. It has nothing to do with violence, neither to life nor to property. It is nothing more or less than the chloroforming of the organism of production, the "knock-out drops" to put to sleep and out of harm's way the ogres of steel and fire that watch and multiply the treasures of King Capital.

b) *Go Cannie*[34]

BY ARTURO M. GIOVANNITTI

It must be said with especial emphasis that sabotage is not and must not be made a systematic hampering of production, that it is not meant as a perpetual clogging of the workings of industry, but that it is a simple expedient of war, to be used only in time of actual warfare with sobriety and moderation, and to be laid by when the truce intervenes.

The form of sabotage which was formerly known as Go Cannie consists purely and simply in "going slow" and "taking it easy" when the bosses do the same in regard to wages.

[33]Adapted from the Introduction to Pouget's *Sabotage*, 13–14. Copyright by Charles H. Kerr & Co. (1913). Written in the Essex County Jail, Lawrence, Massachusetts.

[34]Adapted from the Introduction to Pouget's *Sabotage*, 22–25. Copyright by Charles H. Kerr & Co. (1913).

Let us suppose that one hundred men have an agreement with the boss that they should work eight hours a day and get $4.00 in return for a certain amount of work. The American Federation of Labor is very particular—and wisely so—that the amount of work to be done during a day be clearly stipulated and agreed upon by the two contracting parties—the workers and their employers, this for the purpose of preventing any "speeding up."

Now, to exemplify, let us suppose that these one hundred workers are bricklayers, get fifty cents an hour, work eight hours a day and, as agreed, lay fourteen hundred bricks a day. Now, one good day the boss comes up and tells them he can't pay them $4.00 a day, but they must be satisfied with $3.50. It is a slack season, there are plenty of idle men and, moreover, the job is in the country where the workers cannot very well quit and return home. A strike, for some reason or another, is out of the question. Such things do happen. What are they to do? Yield to the boss sheepishly and supinely? But here comes the Syndicalist who tells them, "Boys, the boss reduced fifty cents on your pay—why not do the same and reduce two hundred bricks on your day's work? And if the boss notices it and remonstrates, well, lay the usual number of bricks, but see that the mortar does not stick so well, so that the top part of the wall will have to be made over again in the morning; or else after laying the real number of bricks you are actually paid for, build up the rest out of the plumb line or use broken bricks or recur to any of the many tricks of the trade. The important thing is not what you do, but simply that it be of no danger or detriment to the third parties and that the boss gets exactly his money's worth and not one whit more."

The same may be said of the other trades. Sweatshop girls when their wages are reduced, instead of sewing one hundred pairs of pants, can sew, say, seventy; or, if they must return the same number, sew the other thirty imperfectly—with crooked seams—or use bad thread or doctor the thread with cheap chemicals so that the seams rip a few hours after the sewing, or be not so careful about the oil on the machines, and so on.

c) Put Salt in the Sugar[35]

If you are an engineer you can, with two cents worth of powdered stone or a pinch of sand, stall your machine, and cause a loss of time or make expensive repairs necessary. If you are a joiner or

[35]Quoted from the *Montpelier Labor Exchange* for 1900, in Tridon, *The New Unionism,* 43–46 (1913).

woodworker, what is simpler than to ruin furniture without your boss noticing it, and thereby drive his customers away? A garment worker can easily spoil a suit or a bolt of cloth; if you are working in a department store a few spots on a fabric cause it to be sold for next to nothing; a grocery clerk, by packing up goods carelessly, brings about a smashup; in the woolen or the haberdashery trade a few drops of acid on the goods you are wrapping will make a customer furious; . . . . an agricultural laborer may sow bad seed in wheat fields, etc.

d) The Effectiveness of Sabotage[36]

BY ARTURO M. GIOVANNITTI

Now that the bosses have succeeded in dealing an almost mortal blow to the boycott, now that picket duty is practically outlawed, free speech throttled, free assemblage prohibited, and injunctions against labor are becoming epidemic; sabotage, this dark, invincible, terrible Damocles' sword that hangs over the head of the master class, will replace all the confiscated weapons and ammunition of the army of the toilers. And it will win, for it is the most redoubtable of all, except the general strike. In vain may the bosses get an injunction against the strikers' funds—sabotage will get a more powerful one against their machinery. In vain may they invoke old laws and make new ones against it—they will never discover it, never track it to its lair, never run it to the ground, for no laws will ever make a crime of the "clumsiness and lack of skill" of a "scab" who bungles his work or "puts on the bum" a machine he "does not know how to run."

There can be no injunction against it. No policeman's club. No rifle diet. No prison bars. It cannot be starved into submission. It cannot be discharged. It cannot be black-listed. It is present everywhere and everywhere invisible, like the airship that soars high above the clouds in the dead of night, beyond the reach of the cannon and the searchlight, and drops the dealiest bombs into the enemy's own encampment.

Sabotage is the most formidable weapon of economic warfare, which will eventually open to the workers the great iron gate of capitalist exploitation and lead them out of the house of bondage into the free land of the future.

[36]Adapted from the Introduction to Pouget's *Sabotage,* 35–36. Copyright by Charles H. Kerr & Co. (1913).

e) The Universality of Sabotage[37]

Actions which might be classed as sabotage are used by the different exploiting and professional classes.

The truck farmer packs his largest fruits and vegetables upon the top layer. The merchant sells inferior articles as "something just as good." The doctor gives "bread pills" or other harmless concoctions in cases where the symptoms are puzzling. The builder uses poorer materials than demanded in the specifications. The manufacturer adulterates foodstuffs and clothing. All these are for the purpose of gaining more profits.

Carloads of potatoes were destroyed in Illinois recently; cotton was burned in the southern states; coffee was destroyed by the Brazilian planters; barge loads of onions were dumped overboard in California; apples were left to rot on the trees of whole orchards in Washington; and hundreds of tons of foodstuffs are held in cold storage until rendered unfit for consumption. All to raise prices.

Some forms of capitalist sabotage are legalized, others are not. But whether or not the various practices are sanctioned by law, it is evident that they are more harmful to society as a whole than is the sabotage of the workers.

Capitalists cause imperfect dams to be constructed, and devastating floods sweep whole sections of the country. They have faulty bridges erected, and wrecks cause great loss of life. They sell steamer tickets, promising absolute security, and sabotage the life-saving equipment to the point where hundreds are murdered, as witness the "Titanic."

The "General Slocum" disaster is an example of capitalist sabotage on the life preservers. The Iroquois Theater fire is an example of sabotage by exploiters who assured the public that the fire-curtain was made of asbestos. The cases could be multiplied indefinitely.

Capitalist sabotage aims to benefit a small group of non-producers. Working-class sabotage seeks to help the wage-working class at the expense of parasites.

The frank position of the class-conscious worker is that capitalist sabotage is wrong because it harms the workers; working-class sabotage is right because it aids the workers.

Sabotage is a direct application of the idea that property has no rights that its creators are bound to respect. Especially is this true when the creators of the wealth of the world are in hunger and want amid the abundance they have produced, while the idle few have all the good things of life.

[37]Quoted from an editorial in the *Industrial Worker,* of Spokane, Washington, in Tridon, *The New Unionism,* 53–55 (1913).

The open advocacy of sabotage and its widespread use is a true reflection of economic conditions. The current ethical code, with all existing laws and institutions, is based upon private property in production. Why expect those who have no stake in society, as it is now constituted, to continue to contribute to its support?

313. Industrial Versus Trade Unionism[38]

BY MARY K. O'SULLIVAN

"We were drowning men ready to grasp at a straw when the Industrial Workers of the World appeared to save us," said more than one striker in Lawrence. Up to the present the Textile Workers of the American Federation of Labor have failed to organize the unskilled and underpaid workers. They have ignored their capacity for strength and failed to win them to their cause or to better their condition. In the past foreigners have been the element through which strikes in the textile industry have been lost. This is the first time in the history of our labor struggles that the foreigners have stood to a man to better their condition as underpaid workers.

The textile workers had only one permanent organization at Lawrence at the beginning of the strike. John Golden, the official head of the Textile Workers of the World, instead of remaining in Lawrence and fighting for the interests of the workers, went to Boston and was reported to have denounced the strike as being led by a band of revolutionists.

Members of the Industrial Workers of the World sent for Joe Ettor and in four days he organized a fighting force such as had never existed in New England before.

Nothing was so conducive to organization by the Industrial Workers of the World as the methods used by the three branches of the American Federation of Labor. These were the Lawrence Central Labor Union, the Boston Women's Trade Union League, and the Textile Workers of America. Catholics, Jews, Protestants, and unbelievers—men and women of many races and languages, —were working together as human beings with a common cause. The American Federation of Labor alone refused to coöperate. As a consequence, the strikers came to look upon the federation as a force almost as dangerous to their success as the force of the employers themselves, and I violate no confidence in saying that the operatives represented in the strike committee have more respect for the mill owners than for the leaders of this antagonistic element

[38]Adapted from an article in *The Survey,* XXVIII, 72–74. Copyright (1912).

within their own ranks. A striker who went to the federation for relief was looked upon as recreant to his cause and before the strike ended the American Federation of Labor organizations, by openly refusing to give any one help who refused to return to work, came to be looked upon as a trap designed in the interests of the mills to catch any workers who could be induced to desert their cause.

314. The Standpoint of Syndicalism[39]

BY LOUIS LEVINE

The fact which is untiringly emphasized in the Syndicalist analysis is the objective antagonistic position of those engaged in modern industry. The owners of the means of production directly or indirectly running their business for their private ends are interested in ever-increasing profits and in higher returns. The workingmen, on the other hand, who passively carry on productive operations are anxious to obtain the highest possible price for their labor-power which is their only source of livelihood. Between these two economic categories friction is inevitable, because profits ever feed on wages, while wages incessantly encroach upon profits.

From this twofold antagonism, rooted in the structure of modern economic society, struggle must ever spring anew, and this is the reason why all schemes and plans to avoid industrial conflicts fail so lamentably. Even the conservative trades unions, based on the idea that the interests of labor and capital are identical, are forced by circumstances to act contrary to their own profession of faith. Organizations like the Civic Federation are doomed to impotency. Boards of conciliation and arbitration work most unsatisfactorily and can show but few and insignificant results.

All efforts, therefore, to establish industrial peace under existing conditions result at best in the most miserable kind of social patchwork which but reveals in more striking nudity the irreconcilable contradictions inherent in modern economic organization.

There is but one logical conclusion from the point of view of Syndicalism. If industrial peace is made impossible by modern economic institutions, the latter must be done away with and industrial peace must be secured by a fundamental change in social organization. At the root of the struggle between capital and labor is the private ownership of the means of production which results in the autocratic or oligarchic direction of industry and in inequality of

[39]Adapted from an article in the *Annals of the American Academy of Political and Social Science,* XLIV, 114–118. Copyright (1912).

distribution. The way to secure industrial peace is to remove the fundamental cause of industrial war, that is, to make the means of production common property, to put the management of industry on a truly democratic basis and to equalize distribution.

The Syndicalist distrusts the state and believes that political forms and institutions have outlived their usefulness and can not be adapted to new social relations. The Syndicalist program for the future, in so far as it is definite and clear, contains the outlines of an industrial society—the basis of which is the industrial union, and the subdivisions of which are federations of unions, and federations of federations. The direction of industry, in this ideal system, is decentralized in such a manner that each industrial part of society has the control only of those economic functions for the intelligent performance of which it is especially fitted by experience, training, and industrial position.

The creative force of the industrial struggle, according to the Syndicalist, manifests itself in a series of economic and moral phenomena which, taken together, must have far-reaching results. In the struggle for higher wages and better conditions of work the workingmen are led to see the important part they play in the mechanism of production and to resent more bitterly the opposition to their demands on the part of employers. With the intensification of the struggle, the feeling of resentment develops into a desire for emancipation from the conditions which make oppression possible; in other words, it grows into complete class consciousness which consists not merely in the recognition of the struggle of classes but also in the determination to abolish the class-character of society. At the same time the struggle necessarily leads the workingmen to effect a higher degree of solidarity among themselves, to develop their moral qualities, and to fortify and consolidate their organizations.

It is evident that unless the Syndicalist could theoretically connect the struggles of the present with his ideal of the future, the latter would remain a beautiful but idle dream even in theory. He is bound, therefore, to find concrete social forces working for the realization of his ideal. His position forces him to prove that his ideal is the expression of the interests of a definite class, that it is gradually being accepted by that class under the pressure of circumstances, and that the social destinies of the "revolutionary" class are more and more identified with the Syndicalist ideal.

He cheerfully accepts the conclusion that if industrial strife is creating social harmony his task is to intensify the struggle, to widen its scope, and to perfect its methods—in order that the creative

force of the struggle may manifest itself as thoroughly and on as large a scale as possible. He, therefore, logically assumes a hostile attitude towards all efforts tending to mitigate the industrial struggle, such as conciliation and arbitration, and definitely enters the economic arena for the purpose of stirring up strife and of accentuating the struggle as much as is in his power.

315. The General Strike[40]

BY ARTHUR D. LEWIS

A logical extension of the local strike leads to the "general strike," which, in its extremest form, is a strike of all the workers in the world, in order to expropriate all the owners of land and capital, and accomplish a world revolution. This is to be brought about by the spread of the strike-spirit. Obviously, if miners, transport-workers (that is, railway, dock, cartage, and tram employees), textile-workers, and building-trade workers (to select a few trades), all stopped work, it might be near enough to a total strike for all practical purposes, and the phrase "general strike" is not applied with any much stricter meaning than that of a very large strike.

The advantage of the general strike has been declared to be that "it is a revolution which commences in legal action, with legality," and that it is so general that the mobilization of an army of suppression would be difficult if not impossible."

"If you believe in the necessity for maintaining what has been called the *catastrophic conception*—the feeling, that is, that the world will only be born again by a complete regeneration, a complete rupture of the present social structure; if you are persuaded that the idea of the *social revolution* is the necessary *symbol* which must guard in the heart of the workers the sense of the abyss which separates the classes, and the *gap* which exists between capitalist society and socialist society; then you must recognize that nothing but the idea of the general strike is capable of creating and developing these revolutionary ideas."

The most important part of a general strike, however, would be a strike of soldiers and police. If this took place while many great trades were arrested, a revolution might actually be near at hand. "What barricades and refusal of taxes have been to the bourgeois, the general strike is for the working-class. It is the *ultima ratio* which enters the scene after all other means have been exhausted." It is usually conceived that the shooting of unarmed strikers, innocent of any crime, is likely to be, at some time or other, a great cause

[40]Adapted from *Syndicalism and the General Strike*, 217–226 (1912).

of an extension of a small strike into a very large one: the mere presence of crowds in the streets has on many occasions been a means of spreading an idea.

A complete disorganization of the means of communication (the letter-post and telegraph) would probably produce a greater psychological effect (as apart from directly material inconvenience) than any other single failure in the routine of society.

Society, although based on force, is largely carried on by means of the knowledge that force can be exerted. The real success of a general strike must depend on its generality: if a vast majority of the workers of a country ever *voluntarily* struck, it is no doubt true that the entire system of present-day society would be at its end. What, however, must usually happen in great strikes is that some men are thrown out of work "without in the least sympathizing with the strike or its purposes. They will be the shopkeepers, the business men, and great sections of the working-classes. As the strike proceeds and the price of food reaches famine levels, and its scarcity becomes chronic, the ranks of the malcontents will be increased." The point is obvious: you cannot get in actual fact a division of society with all the workers on one side.

By many, the idea of the general strike will be quickly dismissed as a wild fancy, a horror of the night, to which it is not necessary to devote serious day thoughts. It may, however, be thought that, although the general strike is exceedingly unlikely to take place, in days of growing discontent, the possible methods by which a strike might really paralyze society are worth considering.

If all the clerks struck work: ours is a civilization built on ledgers, and just imagine—if the money in the rich man's purse was all the money he could get because there were no cashiers at the bank—if, for want of shipping clerks, no one knew how to send goods from Antwerp to Pernambuco—if the builders and decorators spent hours in puzzling over the real cost of jobs in order to send in estimates to customers, and partners in financial houses, absolutely unaware what bills were due for payment or who was to do what in the multitudinous subsidiary wheels of the details of their business, simply raved uselessly and idly around, in a week no one would know whether he was bankrupt or had multiplied his fortune. Now let us imagine that there was simultaneously a strike of transport workers—workers on railways, trams, ships, omnibuses, tubes, cabs, and public conveyances of every kind—while the clerks had stopped all the bookkeeping, letter-writing, insurance, and record-keeping business of the country, and that no one could get to business except by walking—to say nothing of the disorganization of

home life—the rise in cost of food, injury to health, want of news owing to non-delivery of papers, and so on—which would follow. If to these two strikes—the clerks and the transport workers—a third, that of the coal-miners, be added, it will, without explanation, be seen how fearful would be the position of society, if the wage-earners ever became even approximately able all to strike work together.

Van Kol declares it to be "an anarchist Utopia;" if it were possible because of the strong organization of the working-class and their unshakable discipline, better means would also be at their disposal. The poor would suffer first from the famine caused by it. Kautsky says that in a real general strike, as every employer would be equally hit, the main weapon of the striker, the fear of losing trade to competitors, would be non-existent. Like many others, he approves of the political strike intended to obtain definite concessions from a government, but not of a general *economic* strike; the political strike tends to destroy a government by a direct disorganization of the country governed: it is a contest between the cohesive force of the strikers on the one side and of the government on the other. The more foolish and feeble the government, the better the occasion for striking: also the more unforeseen and spontaneous the strike the greater is its effect.

But the Syndicalist's ideal is precisely the general economic strike.

In so far as men unite, and twenty-five shillings a week does not look down on eighteen, the chances of success increase, and the general strike becomes more possible.

XII

SOCIAL REFORM AND LEGAL INSTITUTIONS

From time out of mind the value and permanence of "fundamental" institutions have been questioned. The escape in America from a discussion of problems so basic has been largely due to the newness of our society. The open frontier, the wide distribution of industrial opportunity, the lack of formal class lines, and a spirit of self-reliance have centered our attention upon the more immediate problems of applying a machine-technique to a new continent and of collecting the golden returns. So closely have we been absorbed in this that we have regarded our institutions as a part of the immutable universe itself, as unalterable as the paths of the stars.

But with our consciousness of maturity we are beginning to realize that in the immediate future we must newly evaluate our institutions. Three lines of development are responsible for this change in attitude. First, we are victims of intellectual curiosity. The emphasis placed upon the general ideas of "evolution" and "organism" in our intellectual system has led investigators to explore the institutional realm, and they have brought back word to us that our institutions are but social conventions, and that, though they change slowly, they nevertheless change. Accordingly they are losing the attribute of absoluteness with which we have been accustomed to endow them. Secondly, there is a growing feeling that wealth is inequitably distributed. This attitude was apparent in our discussion of the tariff, the railroads, the trusts, the immigration problem. It manifests itself clearly in discussions of the problems of labor and in the literature of socialism. Even so late as a decade ago the conflict between those who proposed radical changes in our present social arrangements and the upholders of the present order turned upon the issue of the source of value. Today questions of market-process are no longer strategic points of conflict between the opposing systems. The clash now is over institutions. Accordingly we find questions of the social and industrial reform engaging the attention, not only of the economist, but of the student of jurisprudence, the political scientist, the sociologist, and the philosopher as well. Thirdly, the peculiar nature of the industrial system is forcing such questions to the front. Unlike other systems, Modern Industrialism makes use of a vast co-operative productive system. In this there are employed vast aggregates of accumulated wealth. A consciousness of the importance of this large volume of "socialized capital" is leading to the formation of a "gospel of wealth" not unlike the mediaeval "doctrine of stewardship." The disposition to justify or condemn ownership or use of productive goods by "social results" is becoming stronger. Together these three lines of development are increasing our interest in problems of an institutional nature.

Four closely related problems are treated below as typical of the whole group. The first, and in a sense the one which comprehends all the others, is the legal system. It has been pronounced alike "a subtle device of capitalism for enslaving the laborer" and "the supreme palladium of our liberties." Its defenders insist that "law is the conservative factor in social development" and declare its stability a necessary condition to industrial and social advance. Its opponents insist that it is still bound by the natural-rights philosophy of the eighteenth century, that it is living in a world of fictions, and that it knows nothing of the reality of Modern Industrialism. A second institution, which is little else than an aspect of this larger first, is

the system of jurisprudence as interpreted by the courts. It is easy to discern a fundamental antithesis between the theory of social or group solidarity underlying much recent legislation and the individualistic philosophy which finds expression in court decisions. It is easy to criticize the legislation as overlooking "natural rights" which the "courts were established to maintain." It is equally easy to condemn the courts for their inability to appreciate the theory of group welfare underlying such legislative enactments. It is a far more difficult problem to suggest a practical way in which the antithesis can be solved.

A third institution under attack is our system of private property. Most of those who condemn the institutions are moved by the inequalities in wealth which they charge to it. Their attitude is alike shortsighted and individualistic. The institution is commonly defended upon the ground that property-owners are entitled to "what they produce," the assumption being that they "produce" their property. It need not be said that this defense is as weak as the attack. There is, however, a growing disposition to judge the institution by its less immediate "social consequences." Thus it is attacked because of its creation and perpetuation of artificial inequalities in income, because of its influence in stratifying society on pecuniary lines, and because of the dominant social position which it gives to the owners of large aggregates of material wealth. Its defenders, in like manner, stress the incentive which it furnishes to individual initiative, the function which it performs in social organization by placing productive property under efficient management, and its contribution to material development in furthering the accumulation of capital. Perchance a system may be devised for combining the advantages of economic democracy with those of an advancing material culture. If so, by all means let us adopt it. But if the antithesis is irreconcilable, we must choose between two things, both of which offer advantages and disadvantages. Perchance it may be best to sacrifice material advancement; but it is to be feared that the present generation cannot easily be convinced of that. Perhaps we may be fortunate enough to retain the institution, but can succeed in modifying it in such a way as to establish a necessary connection between the privileges and the responsibilities of ownership. At best the problem contains many contradictory values, and turns upon the larger question of the type of society that is desirable.

A fourth and closely related institution is that of individual liberty, embracing as it does the legal convention of freedom of contract.* A necessary complement of private property in a flexible industrial system, it is the very epitome of the older institutional complex. Its modification is threatened by the rise of the newer group spirit, through such legislative initiatives as regulation of monopoly, prescription of hours of labor, legal restraints upon hiring and discharge, etc. How sweeping its modification is to be only the future can tell.

Our attention to our institutional framework of society has just begun. The range of inquiry is as broad as human life itself; the other problems discussed in this volume only begin to show its comprehensiveness. By conscious change many of our institutions are to be profoundly modified. If the newer life finds the institutional molds too rigid, the change may be rapid and revolutionary. But most important of all are the changes in these institutions which are gradually being effected by a process of growth which we but dimly see, and the changes which these institutions in turn are inducing in the complex of our developing scheme of life and values.

A. THE LEGAL SYSTEM

316. The Economic Basis of Law[1]

BY ACHILLE LORIA

Changes in the prevailing economic conditions necessarily involve corresponding alterations in law. The history of law furnishes us with clear and definite demonstration of the fact. During the primitive period when law was worked out upon a family and not upon a property basis, mother-right prevailed universally. Under more modern conditions we are struck with amazement at the similarity in legal systems prevailing among the most diverse peoples. The ancient law of the Romans and Germans alike shows us the same classification of persons; among both the law maintained the inviolability of private property, determined the boundaries of patrimonial fields, proclaimed the personal nature of an obligation, and fixed the rigorous bonds that shackled the liberty of the debtor.

That so striking an analogy should exist in the legal system of two peoples so profoundly different and so widely separated is highly significant: on the one hand, because it reverses the theory that law is an emanation of national consciousness; and upon the other, because it shows that the law necessarily depends upon existing economic conditions. The Romans and the primitive Germans were different in race and manners and lived under different climatic conditions. Between the two peoples there was nothing in common beyond the identity of their economic systems; or, to put it more definitely, there was nothing in common except identical territorial conditions, which irresistibly impelled them to adopt an identical economic constitution. The analogy in legal systems must necessarily have resulted from the one element common to them both, their economic system.

The Roman economy and the German economy proceeded together for a certain time. But after the collective economy gave way to the system of capitalistic property, their ways lay apart; for Germany's free land, being of a low grade of fertility, could be taken from the laborer without serious violence, while in Southern Europe, with its fertile land, blood and iron alone could prevent the laborers from establishing themselves on the free land. This led in Southern Europe to an admirably perfected capitalistic

[1]Adapted from *The Economic Foundations of Society*, 80–86. Translated by Lindley M. Keasbey (1899).

system upon which a corresponding legal structure was raised. The resulting system of legal relations and doctrines remain to our day a superb monument to Latin genius.

The slave economy was never rigorously established in Teutonic countries; the suppression of free land there assumed the milder form of serfdom. Thus there was produced a legal system differing from that of Rome in three respects: it instituted patriarchal relations between property and labor; it protected the serf from arbitrary acts of violence by the proprietor; and it placed respect for the family and a sentiment of solidarity above the mere satisfaction of brutal egoism. With the disintegration of Roman society, the classic law fell into abeyance. Southern Europe was forced to introduce the serf system, and it then became expedient to substitute the Germanic code for the classic law of Rome. This substitution was not a victory of Teutonic over Roman law; it was simply the natural reproduction of a legal system to meet the reappearance of the very economic conditions that had originally given it life. We thus have additional proof of the law's exclusive dependence upon the economic structure of society.

In a somewhat analogous manner the later institution in Germany of economic relations similar to those formerly prevailing in Rome introduced the Roman law into that country. Here the growing wage economy engendered a new set of relations between property and labor, and these had to give rise to institutions heretofore unknown. The new system offered a profound analogy to that of the Roman slave economy. Thus, though the law regulating the wage contract had to be an original creation of the new economic system, the law regulating the relations among proprietors could practically be reproduced in its classic form. Now it is exactly these relations that constitute the essential object of the law. The Roman law, accordingly, emerged from the tomb where it had so long reposed into the expansion of a new life. The movement toward this awakening commenced in Italy where the wage economy first began to develop. Its passing from Italy into Germany was but the necessary correlation of the economic revolution that spread these same conditions throughout Northern Europe.

Thus legal history shows us that instead of being the product of abstract reason, or the result of national consciousness, or a racial characteristic, the law is simply the necessary outcome of economic conditions.

317. Social Rights and the Legal System[2]

BY ROSCOE POUND

A generation ago it would have been hard to find anyone to question that upon the whole the American law was quite what it should be. But first the economists and sociologists and students of government, and then the bar itself, have been thinking upon this matter freely and vigorously until criticism has become stable. The need for agitation has passed. Now for a season we need careful diagnosis and thoroughgoing study of the lines along which change is to proceed.

Legal history shows that from time to time legal systems have to be remade, and that this new birth of a body of law takes place through the infusion into the legal system of something from without. A purely professional development of law, which is necessary in the long run, has certain disadvantages, and the undue rigidity to which it gives rise must be set off from time to time by receiving into the legal system ideas developed outside of legal thought. Such a process has taken place in the history of our own law. In the sixteenth and seventeenth centuries the common law, through purely professional development in the King's Courts, had become so systematic and logical and rigid that it took no account of the moral aspects of causes to which is was to be applied. With equal impartiality its rules fell upon the just and the unjust. The rise of the Court of Chancery and the development of equity brought about an infusion of morals into the legal system—an infusion of the ethical notions of chancellors who were clergymen, not lawyers—and made over the whole law. Again, in the eighteenth century, the law had become so fixed and systematized by professional development as to be quite out of accord with a commercial age. As the sixteenth-century judge refused to hear of a purely moral question, asking simply what was the common law, so the eighteenth-century judge at first refused to hear of mercantile custom and commercial usage, and insisted upon the strict rules of the traditional law. But before the century was out, by the absorption of the law merchant, a great body of non-professional ideas, worked out by the experience of merchants, had been infused into the legal system, and had created or made over whole departments of the law.

Today a like process is going on. The sixteenth-century judge who rendered judgment upon a bond already paid, because no formal release had been executed, and refused to take account of the

[2]Adapted from "Social Problems and the Courts," in the *American Journal of Sociology*, XVIII, 331-341 (1912).

purely moral aspects of the creditor's conduct; the great judge in the eighteenth century who refused to allow the indorsee of a promissory note to sue upon it, because by the common law things in action were not transferable, and would not listen to the settled custom of merchants to transfer such notes, nor to the statement of the London tradesmen as to the unhappy effect of such a ruling upon business, have their entire counterpart in the judges of one of the great courts of the United States in the twentieth century to whom the economic and sociological aspects of a question appear palpably irrelevant.

The sixteenth- and seventeenth-century law was brought to take account of ethics. The eighteenth-century law came to receive the custom of merchants as part of the law of the land. May we not be confident that in the same way the law of the twentieth century will absorb the new economies and the social science of today and be made over thereby?

It is an infusion of social ideas into the traditional element of our law that we have to bring about; and such an infusion is going on. The right course is not to tinker with our courts and with our judicial organization in the hope of bringing about particular results in particular kinds of cases, at a sacrifice of all that we have learned or ought to have learned from legal and judicial history. It is rather to provide a new set of premises, a new order of ideas in such form that the courts may use them and develop them into a modern system by judicial experience of actual cases. A body of law which will satisfy the social workers of today cannot be made of the ultra-individualist materials of eighteenth-century jurisprudence and nineteenth-century common law based thereon, no matter how judges are chosen or how often they are dismissed.

A master of legal history tells us that taught law is tough law. Certainly it is true that our legal thinking and legal teaching are to be blamed more than the courts for the want of sympathy with social legislation which has been so much in evidence in the immediate past. One might almost say that instead of recall of judges, recall of law teachers would be a useful institution. At any rate, what we must insist upon is recall of much of the juristic and judicial thinking of the last century.

For many reasons which cannot be taken up here, our conception of the end of the legal system came to be thoroughly individualistic. Legal justice meant securing of individual interests. It sought by means of law to prevent all interference with individual self-

development and self-assertion, so far as this might be done consistently with a like self-development and self-assertion on the part of others. It conceived that the function of the state and of the law was to make it possible for the individual to act freely. Hence it called for a minimum of legal restraint, restricting the sphere of law to such checks as are necessary to secure "a harmonious coexistence of the individual and of the whole." This purely individualist theory of justice culminated in the eighteenth century in the Declaration of the Rights of Man and the Bill of Rights so characteristic of that period. Spencer's formula of justice, "the liberty of each limited *only* by the like liberties of all," represents the ideal which American law has had before it during its whole existence. In politics, in ethics, and in economics this conception has decayed, and has given way to a newer idea of justice. But it continues to rule in jurisprudence.

In contrast with such juristic thinking of the immediate past, which started from the premise that the object of the law was to secure individual interests and knew of social interests only as individual interests of the state or sovereign, the juristic thinking of the present must start from the proposition that individual interests are to be secured by law because and to the extent that they are social interests. There is a social interest in securing individual interests so far as securing them conduces to general security, security of institutions and the general rural and social life of individuals. Hence while individual interests are one thing and social interests another, the law, which is a social institution, really secures individual interests because of a social interest in so doing.

Study of fundamental problems of jurisprudence, not petty changes of the judicial establishment, is the road to socialization of the law. First of all, there must be a definition of social justice to replace the individualistic or so-called legal justice which we have; there must be a definition of social interests and a study of how far these are subserved by securing the several individual interests which the law has worked out so thoroughly in the past; there must be a study of the means of securing these social interests otherwise than by the methods which the past had worked out for purely individual interests. Second, there must be a study of the actual social effects of legal institutions and legal doctrines. Courts cannot do this, nor can law teachers or law writers, except within narrow limits. The futility of a self-sufficing, self-centered science of law has become apparent to jurists.

318. Law and Social Statics[3]

BY OLIVER W. HOLMES

This case is decided upon an economic theory which a large part of the country does not entertain. If it were a question whether I agreed with the theory I should desire to study further and long before making up my mind. But I do not conceive that to be my duty, because I strongly believe that my agreement or disagreement has nothing to do with the right of the majority to embody their opinion in law. It is settled that state constitutions and laws may regulate life in many ways that we as legislators might think injudicious, or if you like, as tyrannical as this, and which equally interfere with the liberty of contract. This liberty of the citizen to do as he likes so long as he does not interfere with the like liberty of others to do the same, which has been a shibboleth for many well-known writers, is interfered with by school laws, by the Post Office, by every state and municipal institution which takes his money for purposes thought desirable, whether he likes it or not. The 14th Amendment does not enact Herbert Spencer's *Social Statics*. A constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relations of a citizen to the state, or of laissez-faire. It is made for people of fundamentally differing views.

General propositions do not solve concrete problems. The decision will depend on a judgment or intuition more subtle than any articulate major premise. Every opinion tends to become law. I think that the word liberty in the 14th amendment is perverted when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair minded man would necessarily admit that the proposed statute would infringe fundamental principles as they have been understood by the traditions and the laws of our people.

319. The Social Function of Law

BY HOMER HOYT

The critics of the current legal system seem to be agreed as to the baneful effect of its static character. Law is said to be a survival of eighteenth-century philosophy which cannot be justly ap-

[3]*Lochner* v. *New York,* 198 U. S. 74. This the well-known "bake-shop case." A statute passed by the New York legislature, regulating the hours of labor in bake shops, was declared unconstitutional. The selection given is an excerpt from a dissenting opinion (1904).

plied to twentieth-century society. The favorable hearing which this plea is receiving indicates that it is in keeping with the growing tendency of an age of industrial change to emphasize the dynamic and evolutionary elements of its institutions. The demand for relative standards of jurisprudence becomes more insistent, as people become more convinced of the unique and marvelous character of their own epoch. We are told that legal codes should be developed out of the experience of the society to which they are to be applied, and that any law whose basis is broader than the time and place in which it is now established, to the extent that it fails of this coincidence, is clearly unjust. In particular, our present society, which is so different from other societies both in degree of complexity and in kind of organization, necessarily requires rules of conduct which are adapted to its institutions. The scope of laws is not only to be narrowed to a brief time unit, but their application to different classes of individuals at the same moment is to be carefully restricted. As commonly expressed, justice consists in giving to every person a square deal, and this is generally interpreted to mean judgment of the individual by the rules of the game which were set for his particular social environment. Perfect justice could be secured in every case, according to these critics, by discarding past standards and by deciding each case upon its merits. This involves nothing less than the abandonment of objective rules of judgment, and the substitution in their place of the subjective test of the psychological laboratory. The indictment is thus chiefly directed against the social value of static standards of law.

The apologists for the existing legal institutions assert that stable standards of law are necessary to secure this very special consideration of the merits of each individual case, which constitutes the very essence of individual justice. They would remind their critics that legal principles originate in social intercourse, and are concerned with the conduct of individuals in relationships where some community of understanding is indispensable. The social conventions and institutions are the relatively static elements in society, and it is necessary for their function as media of social communication that they should be so. Their purpose is to furnish a convenient agency of mutual expression, which can be acquired with a minimum of effort on the part of the individual, and to establish an agreement among diverse and heterogeneous interests in regard to matters where unanimity is of great advantage to the individual. Law acquires its static character by becoming so familiar that it no longer requires conscious attention. Men form habits in regard to their legal institutions, for the same purpose that they form habits in

regard to language—to economize the time and effort of carrying on relations with their fellows. Legal standards thus enter indissolubly into the thoughts, acts, and characters of men as a part of their fundamental assumptions, which they accept without question. Individual acts inevitably carry forward the theory of law which existed prior to their performance, and thus tend to perpetuate the same principles. The prohibition of retroactive laws is universally considered necessary to prevent confiscation of property, and forfeiture of vested rights, but it accomplishes its purpose by guaranteeing a certain degree of stability in our legal system. Justice to the individual, according to the conception entertained in the preceding paragraph, can be assured only by recognizing the social value of static laws in setting up guideposts to direct individuals to the legal road. The complexity of modern civilization confuses and bewilders one who has no definite knowledge of its laws. As an immigrant in a strange land feels helpless and insecure because of ignorance of the unfamiliar social organization, so the native citizen is nonplused by shifting and unstable legal standards. The consequences of action may be that the individual is subjected to extraordinary civil and criminal liability, for society imputes legal responsibility to one definite act of the many which have co-operated to produce the final result. The criminal act itself is criminal in view of the social attitude which prevails at the time, and the justice of enforcing the social attitude is dependent upon announcement of it beforehand in terms sufficiently definite to put individuals upon their guard.

Uncertainty as to what is legal, when the consequences of guessing wrongly may result in heavy penalties, blights forward action in its very inception, at the moment when the individual is deciding to make the positive step required to overcome the safety and certainty of doing nothing. At this point the society whose duty it was to establish laws and administer justice finds itself deeply concerned, for upon the decision of the individuals depends its progress as a group. Activity of individuals is even more necessary to society than regulatory measures whose purpose is to secure the best type of activity. But when the rules of law depart from fixed standards to suit the exigencies of particular cases to such an extent that they cease to be trustworthy guides for future action, then law, instead of creating an attitude favorable to progress, deadens individual activity. In society as at present organized the social advantages of continued production and the opening of new lines of enterprise would be destroyed, were law made immediately responsive to social conditions, by the very agency which is designed to increase

social efficiency. A fairly stable and certain standard of law must necessarily be established to tempt individual initiative, and this implies that individual standards of justice must give way to a common standard of justice, which all individuals having social dealings can understand and interpret. Otherwise the plea of unusual circumstances or peculiar temperament will readily lend itself to arbitrary and capricious rules of law, the very possibility of which will foster suspicion and distrust of judicial processes. It is only because men are fairly certain that the main bases of property and contract rights will not be suddenly and substantially altered to their disadvantage, that they strike out into new fields of enterprise. It is only because individuals are confident that the court will not construct special standards to apply to their acts, that they will proceed with decision upon tomorrow's work. If all things were subject to change, would anyone confine his attention to one task even for a moment? Entrepreneurs may be able to calculate with some degree of accuracy the probable changes in the factors which will affect future markets for their products, but if the very standards by which they have made their calculations vary at the discretion of a future court, how accurately can they allow for these unprecedented psychological factors?

Definite rules of law are formulated by court decisions as well as by statutory enactment. In the case of court-made law the recognition of precedents is indispensable to the existence of the law, for a legal principle is not established until it comes to be acknowledged as binding upon the facts to which it applies. As fast as new laws are developed, the number of doubtful questions is diminished, and the road is cleared for fresh consideration of new situations which arise out of the dynamic progress of society. It is as necessary, therefore, that the courts be relieved of the enormous burden of reconsidering old issues, as it is for the individual to find definiteness in the law. As individuals accept the greater part of the questions arising out of their social relations as definitely settled, and proceed to expend money and effort upon the assumption that the definite rules will not be reversed, so the courts resolve new cases by comparing them with cases already decided. In thus basing their decisions on precedent, the courts are often unfairly accused of applying a blind rule of thumb to avoid the trouble of exerting ingenuity and using wisdom in devising methods of equitable relief. But it is manifestly far more unjust to reverse the settled principles upon the faith of which men have acquired power and governed their courses of action in the past than to enact into law the court's own unfettered opinion as to the justice of the case, which may or may

not coincide with what is generally accepted. Considerations of practicability enforce this course upon the courts. The task of reconciling conflicting precedents itself gives the widest leeway for the exercise of ingenuity, and the frequency with which cases are decided by a divided opinion indicates the difficulty involved in finding a definite course. The application of legal principles is consequently far more than the readaptation of past rules to present situations. The growth of new social environments changes the force of old arguments and compels a modification of many rules. The precedent which was at first stated in a broad and abstract form is given definite meanings by concrete applications. Its logical relationship to other precedents is developed as occasion requires, and the extent of its scope is definitely determined by an interaction with other precedents. Into the old rules is infused the spirit of the new developments; the outworn and archaic elements are cast out and new elements are added. The whole system of jurisprudence is made to grow by mingling into the substance of the law the viewpoints of each successive age.

B. PRIVATE PROPERTY

320. The Development of the Right of Property[4]

BY GEORGE B. NEWCOMB

Private property, which we are wont to regard as essential to liberty, was the product of experiment rather than the conscious device of reason. Authorities on primitive peoples have given us the strongest reason "for thinking that property once belonged, not to the individuals, but to larger societies, composed on the patriarchal model." Actual examination of existing village communities affords support to the conjecture "that private property, in the shape in which we know it, was chiefly formed by the gradual disentanglement of the separate rights of individuals from the blended rights of the community."

Progress in the history of nations is certainly marked by the recognition of private property; and by an increase, as well, in the amount and variety of individual, compared with public or unappropriated goods, as in the abstractness or far-reachingness of the individual claim. This indicates that society is unconsciously adapting itself to the necessity of altered conditions. Practices introduced

[4]Adapted from "Theories of Property," in the *Political Science Quarterly*, I, 595–599. Copyright (1886).

accidentally became habitual and universal by the experience of their advantages. At first the ethical feeling of society was undoubtedly against property, since everything that tended to individualism was discouraged by the tribal feeling of self-preservation. Its establishment was a mere concession to necessity.

The right of private property was vigorously asserted by the Romans and inserted in their law. The close binding up of property with the person of the owner was due to the influence of the time when the claim to private property was founded in the personal prowess of the warrior. The principle of law referred the right of property to "first possession, labor, succession, and donation."

The life and thought of the Middle Ages were unfavorable to the development of the feeling of individual right in property, though the way was slowly preparing for this. The influence of the Christian conception of the sacredness of the human person was operating silently; the laborer was not absolutely enslaved. And the power of the military chief over his domain land gives an absolute conception of property, which is transferred to individual ownership generally after the dissolution of feudal institutions. Hence, so long as feudalism held is sway, modern property conceptions could not make way. The rights of labor could have no standing; for, "if any tenant were allowed to acquire property in the improvements effected by him, the whole feudal system of mutual dependence and obligation would have been at an end." The feudal baron expressed his title in the robber-motto: *Per Deum et ferrum, obtinui.* The bucolic contentment of this simpler period, the absence of trade to awaken multifarious desires, and the influence of religion, all contributed to repress economic individualism. As for the last-mentioned influence, property was regarded as an encroachment on the original rights of all the members of the human family.

Very different were the ideals of that time from those of the industrial age soon to follow: in the one, poverty canonized; in the other, poverty remanded to the fit society of stupidity and indolence! But even when the whir of industrial activity began in the Middle Ages, the spirit and method of work is still comparatively communal.

It is not necessary to point out all the causes—notably the development of industrialism, the growth of the contract system, and the increase of wealth by trade and commerce—which aided to give that strength to the feeling of right attending private possession, which has in modern times made it so self-asserting. Only it should not be overlooked that with the growth of property man became intensely attached to what he owns.

321. Property and Stewardship[5]

BY ST. BASIL

The rich man argues, Whom am I wronging so long as I keep what is my own? Tell me, just what things are your own? From whom did you get them to make them an inseparable part of your life? You act like a man in a theater who hastens to seize all the seats and prevent the others from entering, keeping for his own use what was meant for all. How do the rich become rich save by the seizure of the things that belong to all? The earth is given in common to all men. Let no man call his own that which has been taken in excess of his needs from a common store. If everyone were to take simply what he needed, there would be no distinction of rich and poor. Were you not born naked? Shall you not return naked to the earth? Whence then the goods you now possess? If you ascribe them to fate you are godless, neither recognizing the Creator nor being grateful to the giver. But you acknowledge they are from God. Tell us, then, why you received them. Is God unfair in the equal distribution of the good things of life? Why is it that you are rich and another is in need? Isn't it wholly that you may win the reward of kindness and of faithful stewardship, and that he may be honored with the great prize of patience? Now after seizing all things in your insatiable greed, and thus shutting out others, do you really think you are wronging no man? Who is the man of greed? He who is not content with a sufficiency? Who is the thief? He who seizes everybody's goods? What are you but a greedy miser? What are you but a thief? The things you received to dispense to others, these you made your own. The man who steals a coat from another is called a thief. Is he who can clothe a naked man and will not, worthy of any other name? The bread you keep in store is the hungry man's bread. The cloak which you guard in the chest belongs to the naked man. The silver you hide away belongs to the needy. Thus it is that you are wronging as many men as you might help if you chose.

322. The Ethics of Property[6]

BY PIERRE JOSEPH PROUDHON

If I were asked to answer the question, "What is slavery?" and I should answer in one word, "It is murder," my meaning would be

[5]Adapted from Migne, *Patrologiae Cursus Completus,* Series Graeca, XXXI, col. 275 (370).

[6]Adapted from *What Is Property?* 12–13. Tr. by Benjamin R. Tucker (1840).

understood at once. No extended argument would be required to show that the power to take from a man his thought, his will, his personality, is a power of life and death; and that to enslave a man is to kill him. Why, then, to this other question, "What is property?" may I not likewise answer, "It is robbery," without the certainty of being misunderstood; the second proposition being no other than a transformation of the first?

One author teaches that property is a civil right, born of occupation and sanctioned by law; another maintains that it is a natural right, originating in labor—and both of these doctrines, totally opposed as they may seem, are encouraged and applauded. I contend that neither labor, nor occupation, nor law, can create property; that it is an effect without a cause: am I censurable?

But murmurs arise!

Property is robbery! That is the signal of revolutions.

Reader, calm yourself. I am no agent of discord, no firebrand of sedition. I anticipate history by a few days; I disclose a truth whose development we may try in vain to arrest; I write the preamble of our future constitution. This proposition which seems to you blasphemous—property is robbery—would, if our prejudices allowed us to consider it, be realized as the lightning-rod to shield us from the coming thunderbolt; but too many interests stand in the way! Alas! philosophy will not change the course of events: destiny will fulfil itself regardless of prophecy. Besides, must not justice be done and our education be finished?

323. Progress and Property[7]

BY PAUL ELMER MORE

Not even a Rousseau could cover up the fact of the initial inequality of men by the decree of that great Ruler or Law which makes one vessel for dishonor and another for honor. This is the so-called injustice of nature. And it is equally a fact that property means the magnifying of that natural injustice into that which you may deplore as unnatural injustice, but which is a fatal necessity, nevertheless. This is the truth, hideous if you choose to make it so to yourself, true to those, whether the favorites of fortune or not, who are themselves true—ineluctable at least.

Unless we are willing to pronounce civilization a grand mistake, as, indeed, religious enthusiasts have ever been prone to do (and humanitarianism is more a perverted religion than a false economics), unless our material progress is all a grand mistake, we must

[7]Adapted from an article entitled "Property and Law," in the *Unpopular Review*, III, 259-268. Copyright (1915).

admit, sadly or cheerfully, that any attempt by government to ignore that inequality may stop the wheels of progress or throw the world back into temporary barbarism, but will surely not be the cause of wider or greater happiness. It is not heartlessness, therefore, to reject the sentiment of the humanitarian, and to avow that the security of property is the first and all-essential duty of a civilized community.

And we may assert this truth more bluntly, or, if you please, more paradoxically. Although, probably, the rude government of barbarians, when the person was scantily covered or surrounded by property, may have dealt principally with wrongs to persons, yet the main care of advancing civilization has been for property. One reason, of course, is that the right of life is so obvious, and in the nature of things has been so long and universally recognized. But, after all, life is a very primitive thing. Nearly all that makes it more significant to us than to the beast is associated with property. To the civilized man the rights of property are more important than the right to life.

In our private dealings with men, we may ignore the laws of civilization with no harm resulting to society; but it is different when we undertake to lay down general rules of practice. We are essentially, not legislators, but judges. And what then, you ask, are human laws? In sober sooth, it is not we who create laws; we are rather finders and interpreters of natural laws, and our decrees are merely the application of our knowledge, or our ignorance, to particular conditions. When our decrees are counter to natural law, they become at best dead letters, and at worst, agents of trouble and destruction. Law is but a rule for regulating the relations of society for practical purposes. We are bound to deal with man as he actually is. So, if our laws are to work for progress, they must recognize property as the basis of civilization, and must admit the consequent inequality of conditions among men. They will have relatively little regard for labor in itself or for the laborer in himself, but they will provide rigidly that labor shall receive the recompense it has bargained for, and that the laborer shall be secure in the possession of what he has received. We may try to teach him to produce more, or to bargain better, but in the face of all appeals of sentiment society must learn again today that it cannot legislate contrary to the decrees of Fate. Law is concerned primarily with the rights of property.

So directly is the maintenance of civilization and peace and all our welfare dependent upon this truth—that it is safer, in the ut-

terance of law, to err on the side of natural equality than on the side of ideal justice. We can do something to control the power of cunning and rapacity, and to make the distribution of material advantages fall more in conformity with superiority of character and culture. We can go a little way, and very slowly, in the endeavor to equalize conditions by the regulation of property; but the elements of danger are always near at hand and insidious; and undoubtedly any legislation that deliberately releases labor from the obligations of contract, and permits it to make war on property with impunity, must be regarded as running counter to the first demands of society. It is an ugly fact that, under cover of the natural inequality of property, evil and greedy men will act in a way that can only be characterized as legal robbery. The state should prevent such action so far as it safely can. Yet even here, in view of the magnitude of the interests involved, it is better that legal robbery should exist along with the maintenance of law, than that legal robbery should be suppressed at the expense of law.

You may to a certain extent control property and make it subservient to the ideal nature of man; but the moment you deny its rights, or undertake to legislate in defiance of them, you may for a time unsettle the very foundations of society, you will certainly in the end render property your despot and so produce a materialized and debased civilization. Manifestly, the mind will be free to enlarge itself in immaterial interests only when the material basis is secure, and without a certain degree of such security a man must be anxious over material things and preponderantly concerned with them. And, manifestly, if this security is dependent upon the right of property, and these rights are denied or belittled in the name of some impossible ideal, it follows that the demands of intellectual leisure will be regarded as abnormal and anti-social.

No doubt the ideal society would be that in which every man should be filled with noble aspirations. But I am not here concerned with utopian visions. My desire is to confirm in the dictates of their own reason those who believe that the private ownership of property is, with very limited reservations, essential to the material stability and progress of society. We who have this conviction need to remind ourselves that laws which would render capital insecure, and, by a heavy income tax or other discrimination in favor of labor, would deprive property of its power of easy self-perpetuation, though they speak loudly in the name of humanity, will in the end be subversive of those conditions under which alone any true value of human life can be realized.

This, I take it, is the reason that the church and the university have almost invariably stood as strongly reactionary against any innovation which threatened the entrenched rights of property. It is not at bottom the greed of possession that moves them, nor are we justified in casting into their teeth the reproach that they who profess to stand for spiritual things are in their corporate capacity the most tenacious upholders of worldly privilege. They are guided by an instinctive feeling that in this mixed and mortal state of our existence, the safety and usefulness of the institutions they control are finally bound up with the inviolability of property which has been devoted to unworldly ends. For if property is secure it may be a means to an end, whereas if it is insecure it will be the end itself.

324. Mine—Property and Rights[8]

BY DAVID M. PARRY

1. Man must work for a living. He would have no intelligence if he lived in a Garden of Eden, because if Nature provided all his needs ready to hand for his use there would be no reason for him to do any thinking, and the result would be that he wouldn't think. Therefore it is in order to make him develop his intelligence that man is compelled to wrestle with nature for his livelihood.

2. Each man is entitled to the results of his own exertions. To say otherwise would be to assert that some men have the right to live on the fruits of the toil of others without working themselves, which would be contrary to our first proposition. Hence personal ownership of property is a necessary deduction from the law that man must work for a living.

3. Each individual is entitled to freedom of action. Being assured that what he produces is his own he is constantly spurred on to develop his capacity to produce. Being assured also that he cannot profit by another's exertions he realizes that he is responsible to himself alone for what he makes out of himself. Therefore each man has an undeniable right to dispose of his own time and labor as he sees fit, or in other words to work out his own destiny. The effect of this is to develop strong, self-reliant and intelligent men. It brings into play the creative faculty of man, his highest faculty, and the faculty that constitutes him a free agent in so far as he is such an agent.

4. It is right and just that one man should obtain more of this world's goods than another. Since personal ownership of property and individual freedom are both valid deductions from the first

[8]Adapted from *To Organized Labor,* 16–18 (1903).

premise that all men shall work, then no complaint can honestly be made because one man by superior exertion or ability manages to produce more than another and consequently has more to show for his labor than another. The fact that one man succeeds in making himself a better living than others is itself a spur to other men to try all the harder. This is what causes progress and the evolution of the race.

5. Capital arises by reason of the fact that one man can produce and own more than another. Some men find that they can produce more than they absolutely need for themselves, and therefore they store up some of their labor in making a machine, and this machine is capital. Here is your frightful "bugbear," capital, coming into existence as the direct and legitimate result of the so-called primal curse that man must labor. It is born as the result of the industry, thrift, self-sacrifice, and intelligence of the few as compared to the many.

6. Industrial ownership of capital is not only the direct deduction from the right of every man to that which he possesses, but it is also necessary for its creation. Men will waste their property in fast living or they will work only part of the time if they find that there is no profit in saving. If a man employs men to make a machine and pays them out of his savings, certainly these men have no valid title to the machine, for they have received for their toil as much, if not a little more, than they would have received for any other labor they could have performed. Neither have the men who are subsequently employed to run the machine any title of ownership in it, for they certainly cannot claim to have made it. The ownership correctly lies in the man who paid for the making of it, and the fact that men can convert their savings into a productive machine that will grind out more savings is the incentive that causes men to have machinery made.

7. Capital, despite individual ownership, benefits the many much more than it does the few. It is in fact emancipating man from drudgery and poverty. Capital brings to the assistance of man the forces of nature in producing commodities. It not only enables him to produce the things he needs or desires with the expenditure of less labor than formerly, but it constantly tends to lift him up from lower to higher pursuits.

8. Wages are dependent upon the aggregate production. If a nation produces but little there is but little to divide. The opposite is true if it produces a great deal. Now the utilization of capital is the only method of greatly increasing the production per capita. Strikes, organized idleness, boycotts, etc., cannot fail in reducing

instead of increasing the general rate of wages, and that because they decrease the aggregate production instead of increasing it. Since they cause less to be made than would have been made, it is a clear mathematical proposition that some are going to suffer when it comes to casting up the balance sheet.

9. The law of supply and demand is the great law regulating industry under this individualistic or capitalistic régime. It operates (1) to direct the energies of the nation along channels that will be the most profitable to all; (2) it makes on the whole the highest possible use of every individual according to his capability and the need that exists for various kinds of services he can perform; (3) it regulates the accumulation of capital, tending to increase its accumulation more at one time than at another, dependent upon the urgency of the need for it; (4) it increases nominal wages and decreases the prices of commodities as it becomes more utilized, thus automatically giving to labor the benefits of capital as fast as it is to the interest of labor that it should be done.

325. My Apology

BY P. PROPERTY

What have I to say why judgment should not be passed against me? why I should not be banished from human society? why, with creatures of darkness, I should not be cast into the outer void? I have little to say. But my long and effective services to society speak eloquently for themselves, and I may as usual content myself with few words. I need only enumerate in briefest form the record of my accomplishments, and I feel that my defense is complete. I mention my achievements not boastfully, being as modest as my first name Private signifies, but only as earnests of what society may expect from me in the future.

For society, and in furtherance of civilization, I, Private Property, assert that I have performed these services, to-wit:

First, I have rendered the fundamental conditions of social and industrial life safe and secure. Before I came into my own, the power to seize and hold summed up the ethics of ownership. Energies that might have gone into more productive employments were used in defending one's own or in appropriating one's neighbor's. But I established and secured social sanction and universal respect for the right of possession.

Second, the security thus afforded had caused the energies of men to be diverted from the acquisition to the production of wealth. It has led to the utilization of natural resources, and has provided

opportunity for the use of long-continued and consistent industrial policies which have caused material goods to increase verily a hundred fold.

Third, such security has furnished an incentive to man as a worker to utilize his productive capacities to the full. It has caused him to sow, because it has promised that he, and not another, should reap. It has led him to sacrifice immediate gain in establishing new processes and in devising new instruments of production to the end that the earth might be crowned with abundance.

Fourth, I plead innocent of the charge of having favored a privileged "leisure class," upon whom I have showered plenty that has been wasted in riotous living. It is true that I have conferred wealth upon a few. But these few I have not particularly favored. I have chosen them for highly important and extremely dangerous social service. I have assigned to them the task of experimentation in consumption. Whatever bad they have found they have discarded. The good that they have discovered has in time been made the property of the masses. They are the vanguard of my army which is engaged in raising the standard of living. The goods supplied to them are not rewards; they consist only of the laboratory materials necessary to the work which they are doing. Witness their suffering, their costs, and you can appreciate the heroism which makes them willing to serve society in so dangerous and important an undertaking. The extent to which, through their pioneer service, the formerly rigid boundaries of consumption have been extended attests my wisdom.

Fifth, I have greatly increased the product of industry by the use of vast stores of capital. The economic inequality which I have perpetuated has been the cause of the existence of so fruitful a fund. For its bulk has come from the very large incomes whose source I am. The savings which become the capital that turns the wheels of our mills, runs our machines, and speeds our trains across the continent on their missions of service are possible only because of me. And, but for the security which I offer, the investment of these savings would be impossible.

Sixth, I supply the people with abundance and contribute to the fullness of their lives. The security which I have brought about has almost eliminated risks. The result is decreased costs, which I generously offer to the public in decreased prices. The long-time productive operations, the improvements in technique, and the cumulative investment of capital, which I have brought about, confer the favors of plenty, variety, and cheapness upon all sorts and conditions of men. My aristocratic methods have been mere devices for

securing democratic ends. I have forced my owners to use me productively. I have made them stewards of the commonweal.

Seventh, I have led society in its development to higher and higher planes. Out of my abundance they have been able to satisfy more and more of their material wants. The certainty with which I have endowed the satisfaction of the necessary material wants has enabled those who choose to give of their time, energy, and means to the immaterial things of life. Our culture, with its wide horizon and its varied content, is my handiwork. That civilization is not coarse and material and brutal is my doing.

Eighth, I have prevented a passing sentimentalism from sacrificing these more permanent values to the passing fancy of the moment. I have, at the cost of much misunderstanding and malignant criticism, prevented the wealth that was needed for a richer life for the generations of the future from being wasted in satisfying the immediate wants of a few surplus individuals who promised no contribution to culture. I have preferred to have such wealth used in enlarging capital, thus making for bounty of goods, and in social experimentation whose end was to lead men to richer and fuller life. I have seen clearly that a deficiency of human life could easily be supplied within a generation, but that a deficiency in capital can never be made up; that cumulatively it becomes greater as the years pass; and that it must deny life to many yet unborn and rob others of comforts which otherwise would have made their lives less vain and hollow.

Ninth, I have proved myself the custodian of peace and have laid the foundations of a world-wide Christian community. The system of vested interests with which I have surrounded labor and capital has done more for the cause of peace than all other agencies combined. For I have increased many fold the costs to all classes of engaging in war. The world-wide industrial system which I have wrought is more powerful than all armaments combined in protecting a state against the encroachments of another state and it contributes more to nation's understanding of nation than the whole world-wide system of diplomacy. My success has not been complete, but that merely makes my continued presence and activity all the more necessary.

I would not detract one whit from the good intentions of my malefactors. I bear them no malice. My only plea is that I be judged according to my fruits. I am done.

C. INDUSTRIAL LIBERTY

326. The Mediatory Character of Freedom[9]

BY THOMAS HILL GREEN

We shall probably all agree that freedom, rightly understood, is the greatest of blessings. But when we thus speak of freedom, we do not mean freedom from restraint or compulsion. We do not mean merely freedom to do as we like quite irrespective of what it is that we like. We do not mean a freedom that can be enjoyed by one man at a cost of a loss of freedom to others. We mean rather a positive power of doing or enjoying something that is worth doing or enjoying, and that, too, something that we do or enjoy in common with others. We mean by it a power which each man exercises through the help or security given him by his fellow-men, and which in turn he helps to secure for them. When we measure the progress of a society by its growth in freedom, we measure it by the increasing development on the whole of those powers of contributing to social good with which we believe the members of the society to be endowed; in short, by the greater power on the part of the citizens to make the most and best of themselves.

Thus, though there can be no freedom among men who act under compulsion, yet the mere removal of compulsion is in itself no contribution to true freedom. In one sense no man is so well able to do what he likes as the wandering savage. He has no master. There is no one to say him nay. Yet we do not count him really free, because the freedom of savagery is not strength, but weakness. The actual powers of the noblest savage do not compare with those of the humblest citizen of a law-abiding state. He is not the slave of man, but he is the slave of nature. Of compulsion by natural necessity he has plenty of experience, though of restraint by society none at all. Nor can he deliver himself from that compulsion except by submitting to this restraint. So to submit is the first step in true freedom, because the first step in the exercise of the faculties with which man is endowed.

But we rightly refuse to recognize the highest development on the part of an exceptional individual or exceptional class, as an advance toward the true freedom of man, if it is founded on a refusal of the same opportunity to other men. The powers of the human mind have probably never attained such force and keenness as among the small groups of men who possessed civil privileges

[9]Adapted from the "Lecture on Liberal Legislation and Freedom of Contract," *Works,* III, 370-373. Edited by R. L. Nettleship (1880).

in the small republics of antiquity. But the civilization and freedom of the ancient world were short-lived because they were partial and exceptional. If the ideal of true freedom is the maximum of power for all the members of human society to make the best of themselves, we are right in ranking modern society, with all its confusion and ignorant license and waste of effort, above the most splendid of ancient republics.

If I have given a true account of that freedom which forms the goal of social effort, we shall see that freedom of contract is valuable only as a means to an end. That end is what I call freedom in the positive sense, the liberation of the powers of all men equally for contributions to a common good.

327. Contract and Co-operation[10]

BY HENRY SIDGWICK

Withdraw contract—suppose that no one can count upon anyone else fulfilling an engagement—and the members of a human community are atoms that cannot effectively combine; the complex co-operation and division of employments that are the essential characteristics of modern industry cannot be introduced among such beings. Suppose contracts freely made and effectively sanctioned, and the most elaborate social organization becomes possible, at least in a society of such human beings as the individualistic theory contemplates—gifted with mature reason and guided by enlightened self-interest. Of such beings it is plausible to say that, when once their respective relations to the surrounding material world have been determined so as to prevent mutual encroachment and secure to each the fruits of his industry, the remainder of their positive mutual rights and obligations ought to depend entirely on that coincidence of their free choices, which we call contract. The doctrine of contract I do not examine; I only refer to it to show the far-reaching importance of the notion of contract in the individualistic view of the organization of society.

328. Contract and Personal Responsibility[11]

BY ARTHUR TWINING HADLEY

A statement of the history of modern freedom, and one that ought to command assent in the twentieth century, is that it represents a passage from a system of obligations imposed by the com-

[10]Adapted from *The Elements of Politics*, 78–79 (1887).

[11]Adapted from *The Relations between Freedom and Responsibility in the Evolution of Democratic Government*, 74–83. Copyright by Yale University Press (1903).

munity to a system of self-imposed obligations. Duty, in the early stages of society, is enforced by lynch law. In the later stages it is enforced by the individual conscience. It is not that the obligations recognized are narrower or less exacting in the latter case than in the former. They tend to become wider and more exacting. But the method of enforcement allows the individual to get at things in his own way. We have passed from a system of status, where each man was born into a set of legal rules and duties imposed upon him for all time, to a system of contract, where each man's rights and duties are largely those which he has made for himself. This change has not enabled man to relieve himself of obligations to his fellow-men. It has allowed these obligations to take forms suited to the varied powers of the individual and the varied needs of society. We can trace at least some of the stages in this process of evolution.

The system of caste, or status, is a survival of the old tribal organization, where law and morals were undistinguished; where social arrangements existed by the authority of the gods; and where any attempt to disturb them was an act of sacrilege. In course of time, however, there came about an alteration in the character of the legal penalties. Where one man had wronged another unintentionally, it became possible not only to inflict punishment, but to exact compensation. Instead of the fine which was exacted for an offense against public order, the community could compel the payment of damages to make good the loss to the person injured. Even where the wrong was intentional the idea of compensation could enter into the penalty. When once the legal authorities grasped this possibility of using a civil remedy, instead of a criminal one, it became possible to allow to any man who could pay substantial damages a degree of personal liberty which was not possible under a system where every infraction of others' rights must be treated as a crime and visited by criminal penalties.

From the development of civil damages it was but a short step to the system of contracts. The essential idea of a contract is that one or both parties agree to perform a certain service at a future time. The obligation which a man assumes in a contract is voluntary until he has made the agreement. After that society will compel him to pay damages for its breach, just as it would compel him to pay damages for the breach of any of the other rights of his fellow citizens. It is therefore, in its very essence, a combination of freedom and responsibility. It is a means which the community can adopt for getting work done by the voluntary assumption of obligations on the part of its members. These obligations they can be compelled to perform or to furnish compensation to the other party.

Among the many brilliant contributions of the Roman lawyers to the progress of civilization, there was probably none so far-reaching as their development of the theory of contract. For, wherever this theory was applied, it taught people that the exercise of freedom involved the assumption of responsibility, and could safely be combined with it.

The lesson was not easy to learn, and the Roman lawyers did not succeed in teaching it to the civilized world for all time. The irruption of the barbarians into Europe brought with it, under the feudal system, a nearly complete return to the old theory of a status. But with the close of the feudal period the ideas of the Roman law were taken up and widely expanded. The power of making a contract, under the old Roman law, had been practically limited to the few men who could furnish security for the performance of their obligations. It belonged chiefly to the minority of freemen who enjoyed the benefits of slavery. At the close of the Middle Ages, however, the reintroduction of the idea of contractual obligation as a basis for social order was accompanied by a system of emancipation which gave the laborer a certain amount of property right in the product of his toil. The substitution of industrial for military tenure put a much larger number of people in a position to furnish security. It enabled the people as a whole, instead of the privileged few, to enjoy the system of education in responsibility which marks the growth of contract law.

For our modern law of contract is a most valuable system of moral education, operating alike upon lawyers and upon laymen, and enabling us to make progress both in our judicial ethics and in our general tone of public morality. The whole English commercial law of the seventeenth and eighteenth centuries, with its distinctions, sometimes fine drawn but always well drawn in matters like agency or warranty, competence or negligence, involves a systematic enforcement of responsibility under the forms of freedom. If we wish to see what this legal development has accomplished in the way of introducing responsibility, we have only to contrast our standards of practice and ethics in those lines where commercial law has been developing for centuries with those where its application is comparatively new. If I sell a cow on the basis of certain representations, which prove to be false, the law holds me to an implied contract of warranty, even if I have explicitly disclaimed any intention to warrant the animal. If I sell a railroad under similar circumstances the law offers the sufferer no corresponding remedy; and no small section of the public applauds the seller for the shrewdness which he has displayed in the transaction. If I use an individual position

of trust to enrich myself at the expense of others, the law will compel me to make restitution, even where criminal intent was absent. But if I profit by similar errors in the management of a corporate trust, the difficulty of bringing the responsibility home is great indeed.

It is the ideal of a free community to give liberty wherever people are sufficiently advanced to use it in ways which shall benefit the public, instead of ways which will promote their own pleasure at the public expense. And it has been the practice of the most successful communities to go farther than this, and give freedom somewhat in advance of this ethical development. Liberty is directly advantageous wherever the ethical development of the community fits people for its use; it is likely to prove indirectly advantageous wherever there is a fair prospect that they can be taught to improve their ethical standards in the immediate future.

329. Labor and Freedom of Contract[12]

What "Freedom of Contract" Has Meant to Labor

1. Denial of eight-hour law for women in Illinois.
2. Denial of eight-hour law for city labor or for mechanics and ordinary laborers.
3. Denial of ten-hour law for bakers.
4. Inability to prohibit tenement labor.
5. Inability to prevent by law employer from requiring employee as condition of securing work, to assume all risk from injury while at work.
6. Inability to prohibit employer selling goods to employees at greater profit than to non-employees.
7. Inability to prohibit mine owners screening coal which is mined by weight before crediting same to employees as basis of wages.
8. Inability to legislate against employer using coercion to prevent employee becoming a member of a labor union.
9. Inability to restrict employer in making deductions from wages of employees.
10. Inability to compel by law payment of wages at regular intervals.
11. Inability to provide by law that laborers on public works shall be paid prevailing rate of wages.
12. Inability to compel by law payment of extra compensation for overtime.

[12]Adapted from a bulletin used at the Chicago Industrial Exhibit in 1906.

13. Inability to prevent by law employer from holding back part of wages.

14. Inability to compel payment of wages in cash; so that employer may pay in truck or scrip not redeemable in lawful money.

15. Inability to forbid alien labor on municipal contracts.

16. Inability to secure by law union label on city printing.

330. Static Assumptions of Contractual Freedom[13]

BY ROSCOE POUND

"The right of a person to sell his labor," says Mr. Justice Harlan, "upon such terms as he deems proper is, in its essence, the same as the right of the purchaser of labor to prescribe the conditions upon which he will accept such labor from the person offering to sell it. So the right of the employe to quit the service of the employer, for whatever reason, is the same as the right of the employer, for whatever reason, to dispense with the services of such employe. In all such particulars the employer and the employe have equality of right, and any legislation that disturbs that right is an arbitrary interference with the liberty of contract, which no government can legally justify in a free land."[14] With this positive declaration of a lawyer, the culmination of a line of cases now nearly twenty-five years old, a statement which a recent writer on the science of jurisprudence has deemed so fundamental as to deserve quotation and exposition at an unusual length, let us compare the equally positive statement of a sociologist: "Much of the discussion about 'equal rights' is utterly hollow. All this ado about the system of contract is surcharged with fallacy."

To everyone acquainted with the facts at first hand the latter statement goes without saying. Why, then, do the courts persist in the fallacy? Why do so many of them force upon legislation an academic theory of equality in the face of practical inequality? Why do we find a great and learned court in 1908 taking a long step into the past of dealing with the relations between employer and employe in railway transportation, as if the parties were individuals, as if they were farmers haggling over the sale of a horse? Why is the legal conception of the relation of employer and employee so at variance with the common knowledge of mankind? Surely the cause of such doctrine must lie deep. Let us enquire then what these causes are and how they have operated to bring about the present state of the law of freedom of contract.

[13]Adapted from "Liberty of Contract," in 18 *Yale Law Journal*, 454–487 (1909).

[14]*Adair* v. *U. S.*, 208 U. S. 161.

There is no doubt that the theory of "natural rights" is at the basis of modern conceptions of freedom of contract. This began as a doctrine of political economy, as a phase of Adam Smith's doctrine which we commonly call laissez faire. It was propounded as a utilitarian principle of politics and legislation by Mill. Spencer derived it from his formula of justice. In this way it became a chief article in the creed of those who sought to minimize the functions of the state, to insist that the most important of its functions was to enforce by law the obligations created by contract. This theory has shown itself present in both legislation and judicial decisions. As a consequence the doctrine of liberty of contract is bound up in the decisions of our courts with a narrow view as to what constitutes special or class legislation, that greatly limits effective law making. For one thing there is the doctrine that apart from constitutional restrictions there are individual rights resting on a natural basis, to which the courts must give effect, beyond the control of the State. "In the judicial discussions of liberty of contract this idea has been very prominent. One court reminds us that natural persons do not derive their right to contract from the law.[15] Another court in passing adversely upon legislation against company stores, says any classification is arbitrary and unconstitutional unless it proceeds on "the natural capacity of persons to contract."[16] Another, in passing on a similar statute, denies that contractual capacity can be restricted except for physical or mental disabilities.[17] Another holds that the legislature cannot take notice of the *de facto* subjection of one class of persons to another in making contracts of employment in certain industries, but must be governed by the theoretical jural equality.[18]

Not only, however, is natural law the fundamental assumption of our law and legal philosophy, but we must not forget that it is the theory of our bills of rights. Not unnaturally the courts have clung to it as being the orthodox theory of constitutions. But the fact that the framers held that theory by no means demonstrates that they intended to impose the theory on us for all time. They laid down principles, not rules, and rules can only be illustrations of principles so long as the facts and opinions remain what they were at the time when the rules were announced. Forgetfulness of this latter fact and an intense zeal for natural rights theory has led to a desire to extend this freedom as far as possible and to limit as much as possible whatever would tend to interfere with this, such as the number and kinds of incapacities which would justify a restraint of

[15] 58 Ark. 407.
[16] 115 Mo. 307.
[17] 33 W. Va. 188.
[18] 61 Kas. 140.

this liberty. The decisions of the courts plainly reveal this. They agree that the term "liberty" is broader than Coke's use of it, that the fact that Coke confined it to freedom of physical motion and locomotion does not exclude a broader interpretation today. Yet the same courts that recognize that liberty must include more today than it did as used in Coke's *Second Institute,* lay it down that the incapacities are to remain what they were at the common law, that new incapacities of fact, arising out of present industrial situations, may not be recognized by legislation. Restraints upon that freedom must find some justification in the existence of like limitations recognized at the old common law.

This appears perhaps no more clearly than in the efforts of the courts to reconcile the existence of usury laws with their notion of liberty of contract. As was said in 113 Pa. St. 427, "The right to regulate the rate of interest existed at the time the constitution was adopted, and cannot, therefore, be considered either an abridgment or restraint upon the rights of the citizen, guaranteed by the constitution. The power to pass usury laws exists by immemorial usage; but such is not the case with such acts as we are considering." That narrow assumptions underlie conceptions of contractual capacities also receives exemplification in connection with judicial discussions of usury laws. For instance in *Frorer* vs. *People,*[19] the court said, "Usury laws proceed upon the theory that the lender and the borrower of money do not occupy toward each other the same relations of equality that parties do in contracting with each other in regard to the loan or sale of other kinds of property, and that the borrower's necessities deprive him of freedom in contracting and place him at the mercy of the lender, and such laws may be found on the statute books of all civilized nations of the world, both ancient and modern." It does not even seem to have occurred to Justice Scholfield that the necessities of the miner or factory employee might impair his freedom of contract as well. And instances might be multiplied, showing the purely individualistic character of all natural law theories, and the legal decisions based upon them.

331. Contractual Rights—Legal and Real[20]

BY THORSTEIN B. VEBLEN

The movement of opinion on natural-rights grounds converged to an insistence on the system of natural liberty, so-called. But this

[19] 141 Ill. 171.

[20] Adapted from *The Theory of Business Enterprise,* 271–278. Copyright by Charles Scribner's Sons (1904).

insistence on natural liberty did not contemplate the abrogation of all conventional prescription. "The simple and obvious system of natural liberty" meant freedom from restraint on any other prescriptive ground than that afforded by the rights of ownership. In its economic bearing the system of natural liberty meant a system of free pecuniary contract. "Liberty does not mean license;" which in economic terms would be transcribed, "The natural freedom of the individual must not traverse the prescriptive rights of property." Property rights being included among natural rights, they had the indefeasibility which attaches to natural rights. Natural liberty prescribes freedom to buy and sell, limited only by the equal freedom of others to buy and sell; with the obvious corollary that there must be no interference with others' buying and selling, except by means of buying and selling.

Presently, when occasion arose in America, the metaphysics of natural liberty was embodied in set form in constitutional enactments. It is, therefore, involved in a more authentic form and with more incisive force in the legal structure of this community than in that of any other. Freedom of contract is the fundamental tenet of the legal creed, so to speak, inviolable and inalienable; and within the province of law and equity no one has competence to penetrate behind this first premise or to question the merits of the natural-rights metaphysics on which it rests. The only principle which may contest its primacy in civil matters is the vague "general welfare" clause, and even this can effectively contest its claims only under exceptional circumstances. Under the application of any general welfare clause the presumption is, and always must be, that the principle of free contract be left intact so far as the circumstances will permit. The citizen may not be deprived of life, liberty, or property without due process of law, and the due process proceeds on the premise that property rights are inviolable. In its bearing upon economic relations between individuals this comes to mean, in effect, not only that one individual or group of individuals may not legally bring any other than pecuniary pressure to bear upon another individual or group, but also that pecuniary pressure cannot be barred.

Now, through gradual change of the economic conditions, this conventional principle of unmitigated and inalienable freedom of contract began to grow obsolete from the moment when it was fairly installed; obsolescent, of course, not in point of law, but in point of fact. The machine process has invaded the field. The standardization and the constraint of the system of machine industry differs from what went before it in that it has no conventional recognition, no metaphysical authentication. The machine process has not itself

become a legal fact. Therefore it neither can or need be taken account of by the legal mind. It does not exist *de jure* but *de facto*.

The "natural," conventional freedom of contract is sacred and inviolable. The *de facto* freedom of choice is a matter about which the law and the courts are not competent to enquire. By force of the concatenation of industrial processes and the dependence of men's comforts or subsistence upon the orderly working of these processes, the exercise of the rights of ownership in the interests of business may traverse the *de facto* necessities of a group or class; it may even traverse the needs of the community at large, for example, in the conceivable case of an advisedly instituted coal famine; but since the necessities or comforts of livelihood cannot be formulated in terms of the natural freedom of contract, they can, in the nature of the case, give rise to no cognizable grievance and find no legal remedy.

D. THE COURTS AND LABOR

332. Limitation of the Working Day for Women

a) The Supremacy of Freedom of Contract[21]

Does the provision in question restrict the right to contract? The words "no female shall be employed" import action on the part of two persons. There must be a person who does the act of employing and a person who consents to the act of being employed. The prohibition of the statute is two fold: first, that no manufacturer or proprietor of a workshop shall employ any female therein more than eight hours in one day; and, second, that no female shall consent to be so employed. It thus prohibits employer and employee from uniting their minds upon any longer service during one day than eight hours. They are prohibited, the one from contracting to employ, and the other from contracting to be employed, otherwise than as directed. Section 2 of Article 2 of the constitution of Illinois provides that "no person shall be deprived of life, liberty, or property without due process of law." The privilege of contracting is both a liberty and a property right. Liberty includes the right to acquire property, and that means the right to make and enforce contracts. The legislature has no right to deprive one class of persons of privileges allowed to other persons under like conditions. Women employed by manufacturers are forbidden to make

[21] *Ritchie* v. *People*, 115 Ill. 98 (1893). This is an excerpt from the opinion of the state court declaring unconstitutional a law providing that "no female shall be employed in any factory or workshop more than eight hours in any one day, or forty-eight hours in any one week."

contracts to labor longer than eight hours in a day, while women employed as saleswomen, bookkeepers, stenographers, or other occupations are at liberty to contract for as many hours of labor a day as they choose. The manner in which this section discriminates against one class of employers and employees, and in favor of all others, places it in opposition to the constitutional guarantees hereinbefore discussed, and so renders it invalid.

But aside from its partial and discriminating character, this enactment is a purely arbitrary restriction upon the fundamental rights of the citizen to control his or her time and facilities. It substitutes the judgment of the legislature for the judgment of the employer and employee in a matter about which they are competent to agree with each other. Where the legislature thus undertakes to impose an unreasonable and unnecessary burden upon any one citizen or class of citizens it transcends the authority intrusted to it by the constitution.

b) The Supremacy of the Police Power[22]

The members of the legislature are elected from every portion of the state and come from every walk in life. They know from experience what laws are necessary to be enacted for the welfare of the communities in which they reside. They determined that the law in question was necessary for the public good, and the protection of the health and well-being of the women engaged in labor in the establishments mentioned in the act. That question was one exclusively within their power and jurisdiction. Women and children have always to a certain extent been wards of the state. Women in recent years have been partly emancipated from their common law disabilities. They now have a limited right of contract. They may own property in their own right, and engage in business on their own account. But they have no voice in the enactment of laws by which they are governed. Certain kinds of work which may be performed by men without injury to their health would wreck the constitutions and destroy the health of women. The state must be accorded the right to guard and protect women as a class against such a condition; and the law in question to that extent conserves the public health and welfare. On the question of the right of contract, we may well declare a law unconstitutional which abridges the right of adult males to contract with each other. The employer

[22]*Wenham* v. *State,* 65 Neb. 394 (1902). This is an excerpt from an opinion of the court declaring constitutional a law providing "that no female shall be employed in any manufacturing, mechanical, or mercantile establishment, hotel, or restaurant in this state more than sixty hours during any one week, and that ten hours shall constitute a day's labor."

and the laborer are practically on an equal footing, but this does not apply to women and children. Their field of remunerative labor is restricted. Competition for places therein is necessarily great. The employer who seeks to obtain the most hours of labor for the least wages has such an advantage over them that the wisdom of the law for their protection cannot well be questioned. If the act is the result of a fair, reasonable exercise of the police power of the state, it should be upheld. We are unable to find a case where the courts have laid down any rigid rule for the exercise of police power. There is little reason under our system of government, for placing a narrow interpretation on this power, or restricting its scope so as to hamper the legislature in dealing with new circumstances as they arise.

(c) Maternity and State Regulation[23]

That woman's physical structure and the performance of maternal functions place her at a disadvantage in the struggle for subsistence is obvious. By the abundant testimony of the medical fraternity continuance for a long time on her feet at work and repeating this from day to day tends to injurious effects upon the body; and as healthy mothers are essential to a vigorous offspring, the physical well-being of woman becomes an object of public interest, and care, in order to preserve the strength and vigor of the race.

333. Reciprocal Nature of Employer's and Employee's Rights[24]

1. The defendants acted within their right when they went out on a strike. Whether with good cause, or without any cause or reason, they had the right to quit work, and their reasons for quitting work were reasons they need not give to anyone. And that they all went out in a body, by agreement or preconcerted arrangement, does not militate against them or affect this case in any way.

2. Such rights are reciprocal, and the company had the right to discharge any or all of the defendants, with or without cause, and it cannot be inquired into as to what the cause was.

3. It is immaterial whether the defendants are not now in the service of the company because of a strike or a lockout.

4. The defendants have the right to combine and work together in whatsoever way they believe will increase their earnings, shorten

[23] *Muller* v. *Oregon,* 208 U. S. 412 (1907). It will be noted that this is from a decision of the United States Supreme Court.

[24] Adapted from the opinion of the court in *Union Pacific Railway Co.* v. *Ruef,* 120 Fed. 102 (1903).

their hours, lessen their labor, or better their condition, and it is for them, and them only, to say whether they will work by the day or by piecework. All such is part of their liberty. And they can so conclude as individuals, or as organizations, or as unions.

5. And the right is also reciprocal. The railroad company has the right to have its work done by the premium or piece system, without molestation or interference by defendants or others. This is liberty for the company, and the company alone has the right to determine as to that matter.

6. When the defendants went on a strike, or when put out on a lockout, their relations with the company were at an end: they were no longer employees of the company; and the places they once occupied in the shops were no longer their places, and never can be again, excepting by mutual agreement between the defendants and the company.

7. No one of the defendants can be compelled by any law, or by any order of any court, to work again for the company on any terms or under any conditions.

8. The company cannot be compelled to employ again any of the defendants, or any other persons, by any law, or by any order of any court, or on any terms, or on any conditions.

9. Each, all, and every of the foregoing matters between the company and the defendants are precisely the same, whether applied to the company or to the defendants.

10. The company has the right to employ others to take the places once filled by defendants; and in employing others the defendants are not to be consulted, and it is of no lawful concern to them, and they can make no lawful complaint by reason thereof. And it makes no difference whether such new employees are citizens of Omaha or of some other city or state.

11. Defendants have the right to argue or discuss with the new employees the question whether the new employees should work for the company. They have the right to persuade them if they can. But in presenting the matter, they have no right to use force or violence. They have no right to terrorize or intimidate the new employees. The new employees have the right to come and go as they please, without fear or molestation, and without being compelled to discuss this or any other question, and without being guarded or picketed, and persistent and continued and objectionable persuasion by numbers is of itself intimidating, and not allowable.

12. Picketing in proximity to the shops or elsewhere on the streets of the city, if in fact it annoys or intimidates the new employees, is not allowable. The streets are for public use, and the

new employee has the same right, neither more nor less, to go back and forth, freely and without molestation and without being harassed by so-called arguments, and without being picketed, as has a defendant or other person. In short, the rights of all parties are one and the same.

334. The Danbury Hatters' Case[25]

BY HARRY W. LAIDLER

In 1897 the United Hatters of North America began a national struggle for the closed shop. According to the *Hatters' Journal,* 16 firms were unionized as the result of the boycott within a period of 18 months. For eleven months a vigorous boycott was waged against Berg & Company of Orange, New Jersey, at the cost to the unions of $18,000. Berg's business was reduced from 2,400 to 500 dozen hats before he agreed to the closed shop. In April, 1901, Roelof & Company, of Philadelphia, were especially subjected to the attention of the unionists. It is estimated that the expenditure of $23,000 by the unionists caused Roelof a loss of some $250,000 during the boycotting period.

Then an effort was made to unionize the factory of D. E. Loewe & Company of Danbury, Connecticut. Unionists proposed a closed shop to Loewe, referring to the fate of other hatters who had withstood their demands. Loewe, however, refused to concede. On July 25, 1902, 250 employees were called out. The shipping clerk was employed by the union to discover the destination of the various assignments. He rode on the wagons, made observations in the streets and at the railway stations, and reported the results to the union. Customers' names were immediately sent to the unions in whose towns the goods were to be delivered, and unionists were requested to write to, or call upon, the dealers and to persuade them to cease their dealings. Five organizers were routed among unions and dealers in different parts of the country. Boycott advertisements appeared in the trade and labor journals, and descriptions —false according to the company—of labor conditions at Loewe's were sent broadcast.

The company claimed that this warfare was most effective; that, during 1901, the firm made a net profit of $27,000, which decreased into a $17,000 net loss in 1902, after the boycott began, and into one of $15,000 during 1903. In 1903 the company claimed the loss in gross business from 17 New York firms alone was $84,700, from

[25]Adapted from *Boycotts and the Labor Struggle,* 151–156, published by John Lane Co. (1914), and "The Supreme Court Decision in the Danbury Hatters' Case," in *The Survey,* XXXIII, 415-416. Copyright (1915).

26 other customers, $160,690, and from Triest, a California jobber, $80,000, making a total of $325,390; that the loss of gross business in 1902 was much less, but still very substantial. The company concluded that the net damage caused by the boycott amounted to more than $88,000. These items, the company declared, did not take into consideration the normal increase in business during the years 1902 and 1903.

Loewe & Company first filed a suit against the unions in the United States Circuit Court at Hartford, on August 31, 1903, charging them with violating the Sherman Anti-Trust law. Various postponements carried the case along until 1907, when Judge James P. Platt of the Circuit Court asked the Supreme Court of the United States for a ruling on the damage clause of the Sherman law.[26] Chief Justice Fuller, who delivered the opinion in the case, February 3, 1908;[27] declared that the boycotting case came within the statute as a conspiracy in restraint of trade among the several states. On October 13, 1909, the case was brought to trial.

Over 200 witnesses testified for the defendants, and the trial lasted nearly five months. In his charge to the jury, Judge Platt, overstepping his authority, directed the jury to bring in a verdict for Loewe, requesting the jurymen to consider the question of damages as the "only question with which they could properly concern themselves." The jury brought in a verdict of $74,000 damages against the union. This amount was trebled under the triple damage provision of the Sherman law. Adding the costs, the total damages finally assessed were $232,240.

The case, however, was appealed to the Circuit Court of Appeals of the Second Judicial District, on a writ of error, and on April 10, 1911, the judgment was reversed, the judges declaring that Judge Platt had erred in taking upon himself the function of the jury, and in leaving to the jurymen only the question of the assessment of damages; also in assuming that mere membership in the United Hatters' Association made a unionist responsible as a principal for all illegal actions of agents of the officers.[28]

An unsuccessful effort was made to have the United States Supreme Court review the case in January, 1912. A retrial of the case, however, was held in Connecticut, ending October 11, 1912, the jury delivering a verdict of $80,000 and costs. The total award was $252,130. The jury took the position that the minutes, resolutions, reports, proclamations, and printed discussions which the

[26]See sec. 7 of the law in Reading 214 *supra*.

[27]*Loewe* v. *Lawlor*, 208 U. S. 274.

[28]*Lawlor* v. *Loewe*, 187 Fed. 522.

officers and agents of the association publicly proclaimed and circulated among the membership were approved or warranted by the individual members of the association. The case was again appealed to the Circuit Court of Appeals, Second Circuit, which, in December, 1913, confirmed the decision of the lower court.

An appeal was taken to the Supreme Court. On January 5, 1915, it reaffirmed the judgment for $252,130 against 186 Danbury hatters found guilty of violating the provisions of the Sherman Anti-Trust act.[29] The decision reaffirmed the position taken by the Supreme Court in 1908 that a boycott conducted by a trade union against a firm whose products are sold in any state other than that in which they are manufactured constitutes "a combination in restraint of trade." The primary and secondary boycott and the unfair list were alike condemned as coming within the scope of the act. The decision stated:

> The circulation of a list of unfair dealers, manifestly intended to put the ban upon those whose names appear therein, among an important body of possible customers is within the possibilities of the Sherman act if it is intended to restrain and restrains commerce among the states.
>
> It requires more than the blindness of justice not to see that many branches of the United Hatters and the Federation of Labor to both of which the defendants belonged, in pursuance of a plan emanating from headquarters, made use of such lists and of the principal and secondary boycott in their effort to subdue the plaintiffs in their demands.

The main question, then, to be determined was whether or not the 186 members of the union whose homes and bank accounts had been attached had, by their actions, authorized the boycott. The court held that the acts could be presumed to be authorized, and the members of the union could be held liable if the latter "paid their dues and continued to delegate authority to their officers unlawfully to interfere with the plaintiffs' interstate commerce in such circumstances as they knew and ought to have known, and such officers were warranted in their belief that they were acting in the matters within their delegated authority."

The decision declared the propriety of introducing into the court newspapers, and like evidence, to show that the acts were brought home to the defendants.

The decision comes as a crushing blow to unionism, and especially to the defendant hatters, to many of whom the collection of the judgment will mean ruin. Whether the unfortunates will receive succor from the American Federation of Labor, or from the hatters' union, is not, at the present writing, certain.

[29] *Lawlor* v. *Loewe,* 235 U. S. 522.

The question now uppermost in the minds of union men is, Can the courts similarly reach the funds of the unions under the new Clayton amendment? If it is found that sec. 20 of this bill does not protect them, a vigorous agitation on the part of labor for the enactment of another law exempting labor organizations from all prosecutions under the provisions of the Sherman act may be anticipated. This decision may give a great impetus to political action on the part of American trade unionists.

335. A Legal Criticism of the Injunction[30]

BY CHARLES CLAFLIN ALLEN

Violation of injunction is punishable as contempt of court. Punishment for contempt of court is the most summary and arbitrary exercise of authority under the English and American judicature. It is the reserve power inherent in every court of general jurisdiction to punish by fine or imprisonment, in order to maintain its dignity and enforce its commands; a power which is absolutely essential to the proper conduct of courts of justice.

The person charged with contempt is entitled to be heard, but he must appear in person and not by attorney. He has no right to be heard by counsel, nor to trial by jury. And the trial of facts for contempt not committed in *facie curiae* is usually on affidavits. While in contempt of an injunction, he can not move to dissolve, nor can he attack the jurisdiction of the court under the original bill, nor file any sort of dilatory pleading whatever, till he has purged himself of the contempt. In short a party to a suit may go to jail for contempt of a preliminary injunction issued *ex parte,* without notice to defendant, which is subsequently—and after the defendant has served his term of imprisonment—held to be without equity—that is, void. This is a tremendous power to place in the hands of one man; for from his judgment there is no appeal.

And what is the purpose of issuing injunctions against great masses of men? What object is to be attained by making 200, or even 500 strikers, parties to a suit, out of a total number of many thousands? Personal service on more than a few, in time to make the writ effective, is impracticable. Is it intended that the mere issuing of the writ should act *in terrorem* over the entire body of men engaged in the strike? Or is it expected, by posting copies in public places, to establish a novel method of service by publication? Is the decree to serve the purpose of a mere executive proclamation,

[30]Adapted from an address published in 28 *American Law Review* 828 (1894).

warning evil-doers against a continuance of their misconduct, and without force or validity, except as a basis for invoking the military power? Surely not. Such a construction would be a degradation of judicial process. Then the conclusion remains that the real purpose is to use the injunction for calling forth the power of the court to punish for contempt; to make of a court of equity in practical effect a criminal court.

The practice of "blanket injunctions" covering large numbers of persons, not actual parties to the suit, and without personal service upon them, is indefensible. It is a general rule, as old as equity jurisprudence, that persons not parties to the bill are not bound by the decree.

After all, what does it mean, this sudden development of equity jurisdiction? Whither are we tending? An injunction sued out by the United States against 10,000 strikers and all the world besides Does the injunction stop the strike? Troops are called out to aid the process. Do they aid it? Some scores of rioters are killed, but where was the injunction meanwhile?

336. Unionism and the Conditions of Employment[31]

Included in the right of personal liberty and the right of private property—partaking of the nature of each—is the right to make contracts for the acquisition of property. Chief among such contracts is that of personal employment, by which labor and other services are exchanged for money or other forms of property. If this right be struck down or arbitrarily interfered with, there is substantial impairment of liberty in the long-established constitutional sense. The right is as essential to the laborer as to the capitalist, to the poor as to the rich; for the vast majority of persons have no other honest way to begin to acquire property, save by working for money.

An interference with this liberty so serious as that now under consideration, and so disturbing of equality of right, must be deemed to be arbitrary, unless it be supportable as a reasonable exercise of the police power of the state. But, notwithstanding the strong general presumption in favor of the validity of state laws, we do not

[31]Adapted from the opinion of the court in the case of *Coppage* v. *State of Kansas,* 236 U.S. 1 (1915). A workman was discharged for refusing to sever his connection with a labor organization. A law of the state of Kansas, where the suit originated, forbade employers requiring of employees an agreement not to become or remain members of labor organizations as a condition of securing or retaining employment. The Kansas statute, involved in this case, was declared unconstitutional.

think the statute in question, as construed and applied in this case, can be sustained as a legitimate exercise of that power.

The act, as the construction given to it by the state court shows, is intended to deprive employers of a part of their liberty of contract, to the corresponding advantage of the employed and the upbuilding of the labor organizations. But no attempt is made, or could reasonably be made, to sustain the purpose to strengthen these voluntary organizations any more than other voluntary associations of persons, as a legitimate object for the exercise of the police power. They are not public institutions charged by law with public or governmental duties, such as would render the maintenance of their membership a matter of direct concern to the general welfare. If they were, a different question would be presented.

As to the interest of the employed, it is said by the Kansas Supreme Court to be a matter of common knowledge that "Employees, as a rule, are not financially able to be as independent in making contracts for the sale of their labor as are employers in making a contract of purchase thereof." No doubt, wherever the right of private property exists, there must and will be inequalities of fortune; and thus it naturally happens that parties negotiating about a contract are not equally unhampered by circumstances. This applies to all contracts and not merely to that between employer and employee. Indeed a little reflection will show that wherever the right of private property and the right of free contract coexist, each party when contracting is inevitably more or less influenced by the question whether he has much property, or little, or none; for the contract is made to the very end that each may gain something that he needs or desires more urgently than that which he proposes to give in exchange. And, since it is self-evident that, unless all things are held in common, some persons must have more property than others, it is from the nature of things impossible to uphold freedom of contract and the right of private property without at the same time recognizing as legitimate those inequalities of fortune that are the necessary result of the exercise of those rights.

It is said in the opinion of the state court that membership in a labor organization does not necessarily affect a man's duty to his employer; that the employer has no right by virtue of the relation, "to dominate the life nor to interfere with the liberty of the employee in matters that do not lessen or deteriorate the service," and that "the statute implies that labor unions are lawful and not inimical to the rights of employers." The same view is presented in the brief of counsel for the state, where it is said that membership in

a labor organization is the "personal and private affair" of the employee. To this line of argument it is sufficient to say that it cannot be judicially declared that membership in such an organization has no relation to a member's duty to his employer; and therefore, if freedom of contract is to be preserved, the employer must be left at liberty to decide for himself whether such membership by his employee is consistent with the satisfactory performance of the duties of the employment.

Of course we do not intend to say, nor to intimate, anything inconsistent with the right of individuals to join labor unions, nor do we question the legitimacy of such organizations so long as they conform to the laws of the land as others are required to do. Conceding the full right of the individual to join the union, he has no inherent right to do this and still remain in the employ of one who is unwilling to employ a union man, any more than the same individual has the right to join the union without the consent of the organization. Can it be doubted that a labor organization—a voluntary association of workingmen—has the inherent and constitutional right to deny membership to any man who will not agree that during such membership he will not accept or retain employment in company with non-union men? Or that a union man has the constitutional right to decline proffered employment unless the employer will agree not to employ any non-union man?

And can there be one rule of liberty for the labor organization and its members, and a different and more restrictive rule for employers? We think not; and since the relation of employer and employee is a voluntary relation, as clearly as it is between the members of a labor organization, the employer has the same inherent right to prescribe the terms upon which he will consent to the relationship, and to have them fairly understood and expressed in advance.

When a man is called upon to agree not to become or remain a member of the union while working for a particular employer, he is in effect only asked to deal openly and frankly with his employer, so as not to retain the employment upon terms to which the latter is not willing to agree. And the liberty of making contracts does not include a liberty to procure employment from an unwilling employer, or without a fair understanding. Nor may the employer be foreclosed by legislation from exercising the same freedom of choice that is the right of the employee.

To ask a man to agree, in advance, to refrain from affiliation with the union while retaining a certain position of employment, is not to ask him to give up any part of his constitutional freedom.

He is free to decline the employment on those terms, just as the employer may decline to offer employment on any other; for "it takes two to make a bargain." Having accepted employment on those terms, the man is still free to join the union when the period of employment expires; or, if employed at will, then any time upon simply quitting the employment. And if bound by his own agreement to refrain from joining during a stated period of employment, he is in no different situation from that which is necessarily incident to term contracts in general. For constitutional freedom of contract does not mean that a party is to be as free after making a contract as before; he is not free to break it without accountability. Freedom of contract, from the very nature of the thing, can be enjoyed only by being exercised; and each particular exercise of it involves making an engagement which, if fulfilled, prevents for the time any inconsistent course of conduct.

XIII

SOCIAL REFORM AND TAXATION

It is not surprising that with the passing of *laissez-faire* and the assumption of a larger area of control by the state, there should arise fresh interest in the problems of taxation. A society using means of control as varied as ours could not overlook so facile an instrument. Nor could it long ignore the vital fact that its new social responsibilities require increased expenditures, and that the field of taxation must be newly explored to discover sources of additional revenue.

More than one generation of economists has fought over the question of whether taxation should be used as an instrument of social control. The advocates of "taxes for revenue only" have usually seriously routed their opponents, chiefly because of the nicety with which their fiscal theories have harmonized with general intellectual theories established upon an individualistic basis. But the advocates of taxes as means of control have quite as seriously triumphed over their opponents in determining usual practices. The small town vindicates its belief in mercantilism by taxing the out-of-town peddler; tax assessors very conveniently under-assess, or fail to assess, the property of industries which their districts are anxious to "encourage"; the state attempts to shape its tax laws in such a way as to invite investment from other states; public sentiment demands a high excise duty on intoxicants as a means of decreasing their consumption; and the nation legislates "prosperity" by rapid and skilful manipulation of customs duties. There is nothing novel in even the advocacy of the single tax as a means of correcting distribution, encouraging production, and eliminating social evils. And when we remember that a tax on commodities will decrease consumption, and are confronted by such an instance as a tax on distilleries causing a rapid development of technique, it is evident that we could not escape using this vehicle in programs of social control, even if we would.

But whether or not the system of taxation is to be used to effect changes in social life and institutions, a rational use of the machinery of taxation must be based upon adequate knowledge. This includes, first of all, a clear idea of the classes or properties which we wish to bear the assessed taxes, and why we wish to put the burdens upon them. We must, in short, have principles or "canons" of taxation. In the second place, we must know the machinery of taxation well enough to know just how to reach the desired objects, assuming that they are not beyond reach. Taxes, you know, have a disagreeable habit of getting "shifted"; and quite frequently their "incidence" falls upon those whom we had no intention of burdening. If we are taking thought for the morrow, and are concerned with increased efficiency of production and "equity" in distribution, we must pay particular attention to the incidence of taxes on the factors of production. In the third place, the consequences of taxation are not confined to shifting; taxes produce other effects than those evidenced by price changes. Such social consequences as business failures, greater concentration in industry, changes in technique, and relocalization of industries must be as accurately anticipated as possible.

Today our concern is not so much with the use of taxation as a means of social control as of adjusting the system to the present industrial situation and of making it yield larger and larger revenues. The first of these

is requiring an abandonment of the general property tax. This time-honored fiscal institution was admirably adapted to rural and handicraft communities; but it seems unable to reconcile itself with the varied forms of property which Modern Industrialism has produced. The older methods of assessment are also inadequate. Small industrial units, organized as individual businesses, could justly be assessed by county or local officials. The property of huge corporations, lying in many counties or states, and much more valuable as entities than the aggregate of material properties would indicate, demands a more centralized system of assessment. It is evident, too, that to treat individuals alike is not to give them equal treatment. The old principle of assessment at a uniform rate, found in so many of our state constitutions, is an inheritance from the eighteenth century. The system, in short, must be made to conform to the newer concepts in which modern industrial life is expressed.

But of greater importance is the increasing demand for revenue. We are being called upon to extend our educational system; to furnish to the people opportunities for recreation, amusement, and cultural development; to lighten the burden of economic insecurity; to perfect an adequate mechanism of social control. These demands are constantly becoming more imperative. To meet them our scheme of taxes must be reconstructed. Customs duties and excise taxes are likely to be retained because of the ease of their collection. The income tax, so closely in harmony with modern concepts of pecuniary property, is likely to grow in favor. The corporations are by no means immune from taxation with increasing severity. Increased volume of business, operation in "a stage of increasing returns," and lack of imperative demand for the lowering of prices together create an ideal condition for an increase in such taxes. But perhaps greater and greater dependence will be put in the inheritance tax. The yield from both this and from the income tax is likely to be greatly increased through "graduation."

It is more than possible that "the single tax," which for so long has preserved its theoretical existence, will be transformed and adapted to the new situation. The time was when the "single-taxer" insisted that rent was wholly unearned, that it should be taxed at 100 per cent, and inferentially that the tax should be made retroactive. It is not long since he was insisting that the levying of such a tax would result in the elimination of all our social evils. Now we are convinced that the question at issue is merely one of the social expediency of the private ownership of land; we realize that "unearned increments" may attach themselves to instruments of production other than land; and we have forced even the single-taxer to abandon the idea of retroactive taxation. Many champions of the scheme are now insisting upon making the rate of taxation only a fractional part of 100 per cent. They are no longer saying that the single tax will eliminate social evils, but are insisting that it is the only adequate device which the state can use to secure the funds with which to eliminate these evils. It is in short gradually becoming "the tax on land values." As such it is playing its part in the solution of social problems abroad and in the not remote future is likely to take its place among our efficient devices for raising revenue.

The use of such taxes, in addition to raising revenue, will involve profound social changes. Inheritance and property will become institutions quite different from those we have known. Wealth will be distributed in quite a different way. The forces making for social development will be different in content and in arrangement. Primarily designed as revenue-producers, these taxes will be none the less effective instruments in transforming our institutions.

A. TAXATION AND INDUSTRIAL DEVELOPMENT

337. Expenditures and Social Organization[1]

BY HENRY CARTER ADAMS

The aggregate of public expenditures depends, among other things, upon the theory of social relations which a people has adopted, and the degree of strictness with which that theory is followed in practice. This theory may be looked for in the accepted philosophy of the respective rights and duties of government and individuals, or, what amounts to the same thing, in the attitude of mind which the public instinctively assumes when certain social or industrial problems are under consideration.

The problems of the class referred to are such as rely for their solution upon the extension, in some of its various forms, of the principle of co-operation; but a great deal depends, so far as the public expenditures are concerned, upon the character of that co-operation. Is the collective activity demanded governmental or is it private? Is the co-operation desired to be secured by coercion or through voluntary association? One cannot emphasize too strongly the contrast between these two forms of social activity in their influence upon the aggregate of public expenditures.

It is exceedingly difficult to express in a few words the characteristic features of the social theories which, under various forms and with many and constant modifications, give color to the political and social fabric of various states. These differences may, however, be suggested by observing that the one theory is a modification of the view of the state assumed by Roman law, and exemplified in a general way by most of the Continental peoples; while the other is a development of the Teutonic and Saxon ideas of personal liberty; and shows its most natural unfolding among peoples in English historical descent. The former makes the state the center of all collective life, and defines the rights of individuals in terms of national importance; the latter places the individual at the center of thought, and conceives of the state as one of several means to individual attainment and development. Under the influence of that philosophy which subordinates the individual to the state it is natural for those intrusted with the administration of the government to regard all questions as properly adjusted when the interests of the state are conserved. Especially will this be true if to such a theory of society there be added the influence of the monarchial

[1]Adapted from *The Science of Finance,* 46–48. Copyright by Henry Holt & Co. (1898).

form of administration. It is logical, for example, that they who represent monarchial governments should accept the necessities of the state as the true measure of legitimate expenditures, without having very much regard for the concurrent needs of individuals. It is easy, also, under such a social theory, for the spirit of paternalism to show itself in many of the items of a budget, and for the thought that the state is an industrial corporation as well as a political organization to swell the proportion of public expenditures.

The view of social relations which underlies English common law, on the other hand, works upon national expenditure in quite another manner, at least so far as those appropriations are concerned which minister to pride and foster bureaucracy, or which are related to the exercise of paternal functions. According to this theory a condition of liberty is conceived to be a heritage of the individual. The state is not regarded as an organism in the sense that it possesses soul, conscience, and sensibilities of its own; it is rather a form of association, and differs mainly from ordinary associations in the character of the service it has to perform, and in the fact that these services are of such a sort as require the state to be the depository of coercive power. Public concessions are judged from the point of view of the interest of the individual, and are approved or disapproved according as they bear upon his prospects. The result of this philosophy of social relations among peoples who practice self-government is to insist that the government prove its case beyond the possibility of a doubt whenever it demands increased expenditures for approved services or the approval of expenditures for an unusual service. Greater reliance is placed upon voluntary association for the attainment of collective interests than upon coercive association. And this results inevitably in charging the cost of many lines of service to the income account of private corporations rather than to that of the state. In this manner, therefore, public expenditures are curtailed by virtue of individualistic philosophy applied to governmental affairs.

338. Taxation as a Means of Social Control[2]

BY ADOLPH WAGNER

The modern science of economics not only recognizes the mutual dependence of public and private economic activity, and their mutually complementary character; it also renounces the optimistic view of the present organization of private industry, and recognizes the

[2]Adapted from *Finanzwissenschaft,* I, paragraph 27, and II, paragraph 159. Translated in Bullock, *Selected Readings in Public Finance,* 178–181 (1883).

great evils in the system of free competition. It has come to know that the organization of productive industry by private initiative, and the distribution of wealth which takes place upon this basis have a decisive social influence. It knows that through this process the power and relations both of individuals and of classes are determined in modern economic society. At the same time our science recognizes the influence which the state exercises directly and indirectly upon the distribution of wealth and position of social classes, by the form which its activity takes, by the manner in which it spends its revenues, by the kinds of taxation it adopts, and by the creation of public debts.

From the knowledge of our science have developed two demands. In the first place, the state should so order its expenditures, tax system, and loans as to remove certain economic and social evils which have attended them in the past. And in the second place, the state, by adopting appropriate policies, should remedy evils which are not due to its previous action in financial and other matters. From this second demand it follows that, in the domain of public finance, expenditures should increase in order to enable the state to assume new functions; and that taxation should be employed for the purpose of bringing about a different distribution of wealth from that which would result from the action of free competition upon the basis of the present social order. It is the modern social problem which is here beginning to work this transformation in the science of finance.

One who considers the present system unconditionally just, as the liberal school did, must logically consider the existing distribution of wealth, which results from this order, as the only righteous and just distribution. This conclusion the keener thinkers of the school have formulated. For a person of this school the existing distribution of wealth is a fact admitting of no further discussion. It follows then that taxation should not alter the existing distribution. In this view of the case, therefore, taxation should be confined to the purpose of raising sufficient revenue; and the socio-political theory of taxation should be rejected.

But, if one disputes the premises underlying the teachings of the liberal school, he can insist that the conclusion that the distribution established by competition is not to be disturbed by taxation is not universally true. We need beside the purely fiscal theory of taxation, to establish a second,—the socio-political, by which a tax becomes something more than a means of raising revenue, and is considered a means of correcting that distribution of wealth which results from competition.

339. Taxation and Technical Development[3]

BY J. R. MC CULLOCH

It is unnecessary to travel beyond the limits of financial history for examples of the powerful influence of taxes in stimulating ingenuity and invention. Previous to 1786 the duties on spirits distilled in Scotland were charged according to the quantities supposed to be actually produced. But as this mode of assessing the duty was found to open a door to extensive frauds, it was resolved in its stead to substitute a license duty proportioned to the size of the still used by the distiller. Stills being all of the same shape, and the quantity of spirits that each could produce in a year according to its cubic contents having been accurately calculated, it was supposed that this plan would effectually prevent smuggling, and that the officers would have nothing to do but inspect the stills that had been licensed, to prevent their size being increased. On the first introduction of this apparently well-considered system, the license duty on each still was fixed at the rate of 30*s* per gallon of its contents.

The principle, however, on which the duty was assessed was very soon subverted. The stills in use down to this period were very deep in proportion to their diameter, so that after being charged they required at an average about a week before the process of distillation was completed. But the new mode of charging the duty had no sooner been introduced than it occurred to two ingenious persons, Messrs. John and William Sligo, distillers, Leith, that by lessening the depth of the still and increasing its diameter, a larger surface would be exposed to the action of the fire, and they would be enabled to run off its contents in considerably less time. Having adopted this plan, they found that it answered their expectations, and that they were able to distil the same quantity of spirits in a few hours that had previously occupied a week. Messrs. Sligo kept this important invention secret for about a year; but it was too valuable to be long concealed, and the moment it transpired, the plan was adopted by other distillers. In consequence government raised, in 1788, the license duty on the still from 30*s* to £3 a gallon.

This increase having redoubled the activity of the distillers, the duty was raised in 1793 to £9 a gallon, in 1795 to £18, and in 1797 it was carried to the enormous sum of £54 a gallon. Still, however, the ingenuity of the distiller outran the increase of the tax; and it was proved before a committee of the House of Commons in 1798 that distillation had been carried to such perfection that stills had

[3]Adapted from *Treatise on Taxation,* 2d edition, 151–152 (1852).

occasionally been filled and discharged once every *eight* minutes. This, it was supposed, must be the maximum of velocity, and a new license duty was laid on the still on the hypothesis that it could, at an average, be run off in that time, or that it could be filled and emptied once every eight minutes during the season. But the ingenuity of the distillers was not yet tasked to the highest. And it was ascertained that, toward the latter end of the license system, stills of forty gallons had been, at an average, filled and run off in the almost incredibly short space of *three* minutes, being an increase of 2,880 times on the rapidity of distillation that had obtained when the license system was introduced in 1786!

Now it will not be alleged, at least with any appearance of probability, that had a duty of 5 or 10 per cent been laid on their income or capital, Messrs. Sligo would have been half so likely to make this important discovery. But being assessed on the still, the duty had the double effect of fixing attention especially on it, and of operating as a powerful incentive to its improvement.

B. THE THEORY OF TAXATION

340. Canons of Taxation[4]

BY ADAM SMITH

It is necessary to premise the four following maxims with regard to taxes in general:

I. The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists, what is called, the equality or inequality of taxation.

II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not nearly so great an evil as a very small degree of uncertainty.

[4]Adapted from *The Wealth of Nations,* Book V, chap. ii, part II (1776).

III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy, or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

341. The Burden of Taxation[5]

BY S. J. CHAPMAN

As regards taxation, the first thing to settle is the principle according to which its burden should be distributed. It is commonly agreed at the present time that taxation should be designed so as to cause *equal proportional sacrifice among the taxpayers.* When there is equality of proportional sacrifice, people are left in the same relative positions after being taxed as before.

This principle has been called the *principle of equality of sacrifice.* It is better, however, to call it the *principle of proportional sacrifice,* because equality of sacrifice might be interpreted to mean equality of absolute sacrifice and not of proportional sacrifice. If the utility of income were constant and the same for all—as it is not—and a man with £1,000 a year and a man with £500 a year contributed £10 a year each in taxes, equal amounts of sacrifice would be entailed, but the man with £500 would be involved in a greater proportional sacrifice. The proportional sacrifice of the man with £500 a year would be the same as that made by a man with £1,000 a year who paid £10 in taxes, if the former paid not £10 but £5, on the assumptions made as regards the utility of income.

It is repeatedly affirmed that the right theory of taxation is the *faculty theory.* Generally speaking, the faculty theory lays it down that a person should pay taxes in proportion to his power to do so. Whether the faculty theory is the correct theory or not, according

[5]Adapted from *Outlines of Political Economy,* 376–379. Published by Longmans, Green, & Co. (1911).

to the consensus of expert opinion, depends upon the exact meaning that we read into it. Let us take an example from a primitive community. The state needs a particular piece of work to be done. Then, some say, for the whole community to turn out to do the work, and for each person to work according to his strength would be for each to contribute to the service of the state according to faculty. But would this be the equitable thing? If all worked ten days, the man of great capacity would be doing absolutely more for the state than the man of little capacity. But the latter would be making a greater proportional sacrifice than the former. He would be doing so because the man of great capacity, who could make much in a year, in yielding up ten days of his time would be surrendering comparative superfluities, whereas the man of little capacity in yielding up ten days of his time would be surrendering comparative necessities. The force of this argument will be more fully appreciated when it is put in terms of money. Equal sacrifices of time are equivalent to proportional sacrifices of money income, but proportional sacrifices of money income are not equivalent to proportional sacrifices of real income, that is of the utility of income, which is the thing that ultimately counts. However, the faculty theory may be interpreted in such a way as to be made identical with the theory of proportional sacrifice.

The so-called *ability theory* is either the *faculty theory* in the form first analyzed above, or the theory of proportional sacrifice. If we mean by any theory that proportional sacrifice alone is equitable, it is best to call it the "theory of proportional sacrifice" so as to prevent any misunderstanding.

Taxation which embodies the principle of proportional sacrifice must be *progressive*. By the principle of progression is meant in general that the higher the *clear net income* of a person the greater must be the *rate* at which he is taxed. The need of progression is derived from the known facts as regards the variation of the utility of income with its amount. In view of the rate at which the marginal utility of income falls, it is practically certain that taxation proportional to income exacts a greater proportional sacrifice from the poorer of any two persons, other things being equal.

The great obstructions in the way of applying the principle of progression with scientific accuracy are (1) that utility varies with income differently for different persons, and even for the same person at different times, and (2) that the variations of utility with income cannot be accurately measured.

C. THE INCIDENCE OF TAXATION

342. Incidence and Industrial Organization[6]

BY A. W. FLUX

There is one feature connected with the selection of forms of taxation which is of very great importance. It is that the tax may be collected from one person and its pressure be really made to rest on another. This can be illustrated by taking the case of a duty on tea imported into the country. It is somewhat obvious that the importer pays the duty, but that he has no intention of bearing the burden. He expects and, speaking generally, contrives to pass on the charge to those to whom he sells, who pass it on in turn till the final resting-place of the burden of the tax is on the consumer. Some increase of the burden is, in fact, generally produced in such a course of transference from one to another. None of the dealers who advance, or become responsible for, the duty do so gratuitously, and the charges, made as a recompense for making such advances, are added to the burden which the duty imposes on the consumer. In distinguishing between the original person who pays a tax and those who finally bear the burden, it is convenient to refer to the former by speaking of the impact of the tax, to the latter by speaking of its ultimate incidence. The incidence may or may not differ from the impact. Where it does differ, the tax is called an indirect one; where it is the same the tax is called direct, as the levy is then made directly from the person who ultimately bears the burden of the tax. The problems connected with the determination of the real incidence of various forms of taxation are among the most difficult problems of economics.

It is useful to examine generally the effect of taxation of the chief forms of income, namely, rent, interest, wages, profits. Take first the case of taxes on rent. Inasmuch as the amount of rent is not a cause of high or low price for the commodity in whose production the rent-yielding agent is employed, a tax on rent is not an influence affecting that price. If the government, for example, claims 10 per cent of rent, that fact does not influence the total of the rent or the supply of the commodity concerned. This latter is, presumably, already arranged on a basis calculated to yield a rent larger in the aggregate than either a less or greater supply would yield. If that be so, then 90 per cent of the rent is also greater for that scale of supply than that same percentage would be for

[6]Adapted from *Economic Principles; An Introductory Study*, 281–286. Published by E. P. Dutton & Co. (1905).

any other scale, whether larger or smaller. Consequently, the incidence of such a tax is on the receivers of rents. The total rent yielded is unchanged, but the proprietors of rent-yielding property receive only 90 per cent of the amount instead of the whole. They cannot improve their position by modifying the total rent-yield, for anything which would add to it would have been a source of gain independent of the tax, and cannot, therefore, be brought into existence by the introduction of the tax. If they adopt changes lowering the total of the rent-yield, they will thereby lower their share, viz., 90 per cent of that total. Thus the burden of a tax on rent cannot be shifted.

The taxation of interest stands on a very different footing. It reduces the yield due to ownership of capital, and thus influences the supply of capital. There is reason for believing that the lowering of the net yield rendered by capital to its owner would discourage accumulation, and thus reduce the volume of the supplies of new capital. This reduction of volume would modify the marginal productivity of capital, for the application of capital to some of the less productive purposes would be restrained by the scantier volume of new supplies. Thus the marginal productivity of capital would be raised in a way which reduced the total productivity of industry. This rise of marginal productivity would correspond to a higher loan-value of capital, and thus, at any rate in part, the burden of the tax would be shifted from the owner of the capital to its users. This shifting would, in the course of time, transfer the burdens to the consumers of the commodities in the production of which capital is employed, that is, practically remove the burden of the tax, on the revenue yielded by capital, to the consumers of goods. It is not contended that no part of the burden would remain on the owners of capital as such, or that, as consumers, they would not bear some part of the diffused burden, but that that chief part of the tax placed on owners of capital, as receivers of interest, would not permanently remain on that class of the community.

If the tax on the interest does not fall equally on the interest-yield of all kinds of capital, there will result a preferential investment of capital in forms which escape taxation, and an avoidance of taxed forms. This will tend to lower the marginal productivity of untaxed forms of capital and raise that of the taxed forms, till the net yield to the owners approaches equality. Further, if land, and the revenues from land ownership, remained unaffected by a tax which fell on revenues from capital, and no corresponding burden were placed on the revenues from land, land values would rise relative to capital, and the ownership of land would gain in attractiveness

from the investment point of view, so long as the rise of its value had not counterbalanced the freedom from taxation of the revenues derived from it. Inasmuch as it is practically impossible to subject to equal taxation the revenues from trade capital, estimated in money, and those derived from the use of consumption capital, which are, for the most part, not estimated in that form, the effect of taxes on interest might be, in part, to encourage the creation and ownership of consumption capital rather than of trade capital.

Taxation of interest must, in practice, take the form of taxation of revenues derived from the ownership of capital, and is likely, therefore, to touch some other classes of revenue in addition to interest.

The particular class of revenue most likely to be included with interest is the remuneration for risk-taking. In so far as a reduction, in the gains derivable from undertaking the risks of industrial and other business operations, would operate to diminish the willingness of owners of capital to accept the risks, the taxation of profits would tend to divert capital and enterprise to the less risky openings for their employment. This would increase the competition in such lines and operate to reduce the general return to capital and check the rate of accumulation. The taxation of profits, therefore, except in the degree in which they proceed from monopoly, or from rent-yielding differential advantages in production, is not, in the long run, taxation the burden of which remains where it first falls. It is gradually diffused over the community as a whole.

Turning to the subject of taxes on wages, the same kind of problem is again presented. If a reduction of the net receipts of the wage-earner left unchanged the amount and quality of his work, and had no influence on the increase of numbers seeking to earn wages, the burden of the tax would rest wholly on the wage-earner. He would, in that case, give as much and receive less, that is to say, less for the use of himself and family. In general, however, the influence of such a reduction in net remuneration would be found in a reduction in efficiency of the worker. Thus the cost of his product would be raised, and some share of the tax burden thrown on other classes. The consumers of the goods would have to pay more for them, without the entire additional payment becoming available for raising the remuneration of the labor. A part of such increased cost of commodities might go to provide an addition to the laborer's wages, thus modifying the burden of the tax on the wages. In view, too, of the fact that the net remuneration of labor influences, in general, the rate of increase of the numbers of the population, a gradual modification of the supply of labor might operate, as in the case of

capital, to produce the result contemplated above, namely, some increase of the rate paid for labor, thus reducing the net burden of the tax so far as the laborer is concerned, and distributing a share of it among other classes than wage-earners. In so far as the diffusion of the burden throws it on consumers as such, the wage-earning classes will not escape the burden, since they include so large a part of the consuming public. Whether they, or other classes, will be most affected will turn on what kind of commodities are most affected. If it be commodities chiefly consumed by the wealthier classes, these classes, will, as consumers, bear part of the burden of a tax on wages. If it be commodities chiefly consumed by the wage-earning classes, these classes may bear as consumers part of the burden which they throw off as recipients of wages.

As in the case of interest, so also in that of wages, taxation affecting special kinds of wages only will influence the distribution of labor in the various industries, and be a cause affecting the relation of the wages in taxed and untaxed employments to each other.

343. The Burden of the Tariff Tax[7]

SEE HOW TARIFFS TAX AMERICAN WORKMEN

The following is a list of some of the taxes which American workmen have to pay:

Felt hat	Taxed 60 per cent	Leather bag	Taxed 40 per cent
Matches	" 35 " "	Pipe	" 60 " "
Shoes	" 15 " "	Tools	" 45 " "
Umbrella	" 50 " "	Watch	" 40 " "
Woolen shirt	" 100 " "	Leather belts	" 40 " "
Buttons	" 20 " "	Watch chains	" 45 " "
Clothes	" 100 " "	Collars	" 45 " "

IF WE HAVE TARIFF REFORM YOU WILL BE TAXED IN THE SAME WAY. IT MUST ALL COME OUT OF YOUR WAGES

SEE HOW TARIFFS TAX THE CHILDREN IN AMERICA

IF WE HAVE TARIFF REFORM THE TAXES WILL FALL ON THE CHILDREN

The children's clothing, toys, and school things are all taxed by the tariffs in America.

[7]Adapted from *The Perils of Protection,* a pamphlet used by the Liberal party in the English Parliamentary elections in 1909–10.

ALL BOOTS AND SHOES ARE TAXED 35 PER CENT

See how the school things are taxed:

A school-bag	is taxed	45 per cent	A school-box	is taxed	55 per cent
A pencil-case	" "	40 " "	A sponge	" "	40 " "
A pencil	" "	25 " "	An exercise book	" "	25 " "
A fountain pen	" "	30 " "	A pen-wiper	" "	50 " "

See how the girls are taxed:

A girl's woolen dress	is taxed	100 per cent.
A girl's lace collar	" "	60 " "
A girl's cloth hat	" "	60 " "
A girl's hair ribbon	" "	60 " "

See how the boys are taxed:

A boy's suit	is taxed	100 per cent	A boy's cap	is taxed	60 per cent
A boy's collar	" "	40 " "	A boy's tie	" "	50 " "

See how the toys are taxed:

Dolls	are taxed	35 per cent	Hoops	are taxed	35 per cent
Balls	" "	35 " "	Cycles	" "	45 " "

IF YOU VOTE FOR TARIFF REFORM YOU WILL VOTE TO TAX THE CHILDREN. EVEN THE LITTLE ONES WILL NOT BE SPARED BY THE TARIFF TAXERS

TARIFF REFORM MEANS LEGALISED ROBBERY

Tariff reformers want to tax goods which come from abroad, so as to increase the price of the goods which are made at home.

The extra cost of the goods would come out of your pockets.

THAT WOULD BE ROBBERY

They have this kind of taxation in Germany. What happens?

A German economist, Dr. Lotz, has calculated that for every penny the German government gets from the tax on iron, the German ironmasters get elevenpence.

THAT IS ROBBERY

Germany taxes the bread and meat of her people. Dr. Gothein stated in the German parliament that out of every 80*s*. which the bread and meat taxes took out of the pockets of the German people, the German government only got 3*s*.

THAT IS ROBBERY

If a free trade government takes money out of your pocket, it takes it only to pay for the necessary expenses of the government. Under free trade every penny taken from the people in taxes is spent for the people and by the people.

A tariff reform government would take money out of your pocket and put it into the pockets of landlords and manufacturers.

THAT ALSO WOULD BE ROBBERY

THE OBJECT OF TARIFF REFORM IS TO TAX THE POOR MAN'S FOOD IN ORDER TO FILL THE RICH MAN'S POCKET

ARE YOU GOING TO LET THEM

344. The Incidence of the Customs Tax[8]

BY EDWIN R. A. SELIGMAN

The elements that enter into the equation of international demand are so numerous and so complex that an investigation of the actual effects of tax upon any one class of commodities would require for its proper solution, not only an acquaintance with the details of the theories of the shifting of taxes, but also an intimate knowledge of all the forces influencing the supply of, and the demand for, the commodities affected in the two countries immediately concerned, as well as in the other countries which constitute the world-market.

Among the considerations affecting the problem of the incidence of a tax on imports, the following are most important: (1) To what extent does the exporting country control the supply of the commodity? (2) To what extent does the importing country constitute the sole market for the commodity? (3) To what extent can the commodity in question be produced at home? (4) What is the ratio of product to cost? (5) To what extent is the demand elastic?

The imposition of the tax may be considered, in ordinary cases, as an addition to the cost of production, and as such increases the price of the article in the importing country by the amount of the

[8]Adapted from *The Shifting and Incidence of Taxation*, 374–378. Copyright by Columbia University Press (1910).

duty. Under such conditions it is true that "the tariff is a tax," and that it falls on the consumer. The conclusion is based on the assumption that the producers do not bear any part of the tax; that, although the sales necessarily fall off more or less, according as the demand is sensitive or not, by reason of the increased price the producers find an outlet for their goods in some other country.

The assumption, however, is not always correct. It may happen that the importing country constitutes either the sole market for the commodity, or such an important part of the market that the producer finds it difficult to extend his sales in other countries. To the extent that this is true, the producer finds it to his interest to avoid any substantial diminution of demand in his chief market. This can be accomplished, however, only by consenting to bear a portion of the tax himself. If the importing country constitutes the sole market for the commodity and if the demand is very elastic, the conditions are most favorable to the consumer in the importing country. But from this very exceptional case, where the producer bears the larger share of the tax, down to the ordinary case, where the consumer bears the whole of it, there are all kinds of gradations.

Another very important element in the problem is the extent to which the home production in the importing country may fill the gap caused by the diminution in the imports from the exporting country. The ordinary reasoning that "the tariff is a tax" is based on the assumption that the equilibrium will be reached when the decreased supply from the foreign country sells at the increased price. If the home country cannot produce the article at all, this assumption is valid. But if the home country has hitherto been prevented from producing the article solely because the price has been too low to admit of profits, the degree to which home production can round out the supply depends entirely upon the extent to which the price rises. Suppose that an imported commodity can be produced abroad so as to sell in the importing country for $10.00, while the article can be produced in the importing country only at an initial cost of $12.50. If a tax of $2.00 per unit is imposed, the price will rise to $12.00 and the demand will fall off. But, suppose the importing country can now furnish part of the supply, and because of the larger output will be able to produce the article for $11.00. Despite the tax of $2.00, the price cannot rise above $11.00, the demand will not fall off as much as before, and the tax will be divided between the foreign producer and the home consumer.

The extent to which the home producer can capture a part of the market depends, among other things, upon the ratio of product to cost. If the product is produced at home under the law of increasing

cost, which is the usual case in competitive industries, the chance of the home producer is not so good; if under the law of decreasing cost, which as we know implies a trend toward monopoly, his chances are better. But it is obvious that cases may arise where it is not true that "the tariff is a tax" in the sense that the whole burden of the import duty is necessarily borne by the consumer. The greater the supply that is captured by the home producer, the less will be the proceeds of the tax. If the foreign product is entirely shut out, the revenue will be zero. If, in the extreme case mentioned, the home producer supplies the entire market at a price of $12.00, the government loses its whole revenue from the tax, and the consumers lose the entire amount of the tax through the increase in price. If, on the other hand, the price of the home product after the shutting out of foreign competition and the development of improved processes at home can be finally brought down to a point lower than $10.00, the revenue will indeed still be zero, but the consumers will lose nothing, and the community will have gained the advantages resulting from an increase in industry.

D. "UNSCIENTIFIC" TAXATION

345. Defects of the General Property Tax[9]

There are two reasons why the general property tax has failed in operation: First, because under modern conditions it cannot be enforced effectively; secondly, because of a more or less conscious recognition of the fact that strict enforcement would result in a still greater injustice than now prevails.

The practical difficulties in the way of enforcing the general property tax are well known. Under modern conditions much property that is valuable to its individual owner is in a form that permits of easy evasion. The paper evidences of the ownership of property which the general property tax system seeks to reach in the hands of the owner, can readily be concealed, or there can be a colorable transfer of title. Credits and debts can be juggled. Visible personal property can be temporarily transferred into another district or state. Where the taxpayer makes his own return, he can undervalue or omit some of his property. If the assessor tries to inventory the property, he may overlook much of it and fail to estimate the value of that which he does find.

[9]Adapted from "Report of Committee on Causes of Failure of General Property Tax," in *State and Local Taxation, Fourth International Conference,* 307-310. Copyright by National Tax Association (1910).

Then there is the ever-present feeling which exerts a conscious or unconscious influence with the average administrator, that he drives away productive capital by the strict enforcement of laws which hinder the business interests of his community in competition with those in localities where greater "leniency" is shown.

Public opinion almost invariably recognizes the unfairness of taxing all property by the same rule and at the same rate, whenever a strict enforcement of the law is attempted. The abstract demand for the taxation of all property alike then gives place to concrete indignation over the actual results. It is always some unknown "they" who ought to be made to pay on everything "they" own. But the property which the assessor does find often is, in the opinion of its owners, either greatly overvalued, or has been "singled out," or is otherwise quite improperly on the rolls. This attitude of the average property-owner is an unconscious resentment at the unfairness of the general property tax theory. The attempt to tax all property at a uniform standard of valuation and at the same rate, regardless of its special characteristics, earning power, or the benefits derived from the expenditures of government, violates the primary rules of just taxation and offends the natural sense of justice.

The two theories of taxation most widely accepted by economists are: One, that each individual should be taxed in proportion to his ability to pay; the other, that taxes should be levied in proportion to benefits or privileges received from government. However the advocates of either theory may differ, they will agree that at least taxation should conform to one of these two theories in order to approach fairness. The general property tax conforms to neither. It establishes an arbitrary measure for taxation that bears no relation either to ability to pay or to benefits received.

Apart from these theoretical objections, there is a practical injustice inseparable from strict enforcement. The fact that the real estate tax has been enforced regularly, has led to an amortization of the average tax. The rental received from real estate is gross; therefore the purchaser deducts the tax and finds the net income before he purchases, thus securing for his investment the current rate of return, tax-free. The investor in securities usually pays a purchase price which is fixed in a country-wide market, and is calculated on the assumption that the investment will escape taxation, and that his whole income will therefore be net. When by spasmodic enforcement of the law, or disclosure of personalty in a probate court, securities that bear, say, 4 per cent interest are made subject to a 2 or 3 per cent tax on their market or face value, the moral sense revolts at this practical confiscation of so large a share of the income.

In the case of tangible property such as merchandise, the results of general evasion are similar. Selling prices are fixed on the assumption that the business will largely, if not wholly, escape taxation. The few merchants who are caught find themselves taxed out of all proportion to others, and are unable to recoup themselves for the tax by adding to prices, because of the competition with those who escape, or with non-residents—who may be wholly relieved from such liability in their own states.

To sum up, your committee finds:

That the general property tax system has broken down.

That it has not been more successful under strict administration than where the administration is lax.

That in the states where its administration has been the most stringent, the tendency of public opinion and legislation is not toward still more stringent administration, but toward a modification of the system.

That the same tendency is evident in the states where administration has been more lax.

That the states which have modified or abandoned the general property tax show no intention of returning to it.

That in the states where the general property tax is required by constitutional provisions, there is a growing demand for the repeal of such provisions.

We conclude, therefore, that the failure of the general property tax is due to the inherent defects of the theory; that even measurably fair and effective administration is unattainable; and that all attempts to strengthen such administration serve simply to accentuate and to prolong the inequalities and unjust operation of the system.

346. Multiple Taxation[10]

BY THEODORE SUTRO

No one doubts the fact of double and multiple taxation in our system, but nevertheless it will be useful to point out some concrete examples.

Certain logs, cut on lands in Wisconsin owned by a Minnesota corporation, were hauled to a river and piled on the ice to await the opening of the river, that they might be floated down to Minnesota to be there manufactured into lumber. Under a statute of Wisconsin these logs were assessed in the month of April for taxation for

[10]Adapted from "Double and Multiple Taxation," in *State and Local Taxation, Second International Conference,* 548-552. Copyright by National Tax Association (1909).

the year commencing on the last Monday in June, on the claim that the *situs* of the logs was in Wisconsin. It appears that under a law of the state of Minnesota the same logs were also assessed against the Minnesota corporation, and taxed there for part or all of the same period. The Wisconsin court admitted that this would result in double taxation of the same article in the same year and said: "Either it is lawful to tax the logs in Wisconsin or it is not. If lawful at all, the mere circumstance that the owner, after the tax is levied, voluntarily takes them into another state, where they are also taxed, can have nothing to do with the question of the constitutionality of the tax here."[11]

Here is a flagrant case of double taxation, but we may go farther. Let us assume that the Minnesota corporation had a permanently established agency in the city of New York, and that it sent these logs, subsequent to their taxation both in the states of Minnesota and Wisconsin, to the city of New York, where they would arrive before the tax period of Wisconsin and Minnesota had expired, and would, within that period, reach and be in the city of New York on the subsequent second Monday of January. They would thereupon become taxable for the third time in the city of New York.

Let us assume further that subsequently, say in the month of March, they were sawed into lumber in the state of New York, and were in or about the month of April shipped to another agency of the same Minnesota Corporation, in the state of New Jersey, and that this lumber was in the hands of the New Jersey agency on the twentieth day of May, on which date assessments for taxation are made in that state.

We should then have this result: that these logs were assessed in Wisconsin for the whole period of one year from the last Monday of June, for nearly the whole of that period also in the state of Minnesota, from the period from at least the second Monday in January until the last Monday of June also in New York, and from the period from the twentieth of May until the last Monday of June in New Jersey.

On the other hand, a competing Wisconsin corporation or individual growing and cutting these logs into lumber in that state and disposing of this lumber before the expiration of a year from the last Monday of June would have been taxed for the logs or their equivalent in lumber only a single time for the same tax period, for which the Minnesota corporation would have been taxed four times.

[11] *C. N. Nelson Lumber Co.* v. *Town of Loraine,* 22 Fed. 54 (1884).

Certain mortgages on lands in Oregon held by a California corporation were taxed in Oregon, under an Oregon statute, which provided that "mortgages of land shall for the purpose of assessment and taxation be deemed to be real estate." Under the laws of California the same mortgages were taxable against the California corporation for a part of the same period.[12] This illustration also we might carry farther by assuming that before the tax period in California had expired the mortgages had been assigned by the California corporation to a resident of New York City. If held by that resident on the second Monday of January in the city of New York, the same mortgages would have been subject to another tax for the same tax period.

Money had been loaned by a resident of Kentucky to a firm in Ohio. It was taxed in both states. The court said: "Borrowed capital in Ohio is taxable as the borrower's property there, and the debt due to the lender in Kentucky is taxable here as her property" (i. e., the property of the minor daughter of the deceased lender). "In this case, the ward's right to the money in Ohio is a portion of the wealth of Kentucky, and ought to contribute to the burdens of the government which protects her; and if it could escape contribution by lending it in Ohio, a knowledge of that fact would encourage the exhaustive deportation of the money of Kentucky to augment the wealth of some other state."[13]

E. TENDENCIES IN TAXATION

347. The Massachusetts Corporation Tax[14]

In Massachusetts there is general provision for the taxation of corporations upon their "corporate excess." Although experience has shown that each class of corporations requires special treatment, and many modifications have been made, the central idea—corporate excess—is preserved throughout.

In ascertaining the corporate excess, this general provision requires an annual return by the corporation to the tax commissioner showing the amount and market value of its capital stock and assets, and also the names of the stockholders, with their holdings and addresses. He estimates the entire value of the capital stock from this return. This estimate is denominated the value of the "cor-

[12] *Johnson* v. *De Bary-Baza Merchant's Line,* 37 L.R.A. 518; *Savings and Loan Soc.* v. *Multnomah County,* 60 Fed. 31 (1894).

[13] *Thomas* v. *Mason Co.,* 67 Ky. 135 (Court of Appeals, 1868).

[14] Adapted from the *Report of the Commission of Corporations on the Taxation of Corporations,* I, 89–93 (1909).

porate franchise." Deduction is made for the value of real estate and machinery taxed locally, and the remainder, called the "corporate excess," is taxed at the average rate of taxation for the whole state during the last three years.

Such proportion of the tax collected by the state as corresponds to the amount of stock owned within the state is returned to the towns and cities in which the stockholders reside, in proportion to the number of shares there owned. The portion of the tax which represents the tax on shares of stock held outside the state goes to the state. Under this arrangement it is estimated that about 20 per cent of the tax accrues to the state. Shares in domestic corporations are not taxed to their owner as personal property. Bonds are taxable.

"Business corporations" were originally included under the tax on corporate excess above described; but owing to the effect of that tax in compelling Massachusetts corporations to give up their charters and incorporate under laws of other jurisdictions, it was found necessary to place limitations on the assessment of the corporate excess of such corporations. In 1903 "An act relative to business corporations" was passed, which law relates particularly to manufacturing and mercantile corporations as distinguished from financial and transportation and transmission corporations.

This law provides that domestic corporations having capital stock and established for the purpose of carrying on business for profit be taxed as follows: The corporation makes an annual return to the Tax Commissioner, from which he estimates the entire value of capital stock and this is denominated the value of the corporate franchise. There is a deduction of the value of real estate and machinery subject to local taxation within the state, and also of the value of property which is in another state or country and is subject to taxation therein. No deduction is made for securities which would be taxable if owned by a resident natural person, but if such securities would not be taxable in the hands of a natural person they are deducted. On the net valuation or corporate excess thus reached the state directly imposes a tax at the average rate of all the cities and towns in the state for the last three years. The tax, however, is not to exceed a tax at this rate on an amount 20 per cent in excess of the value of the real estate, machinery, and merchandise, and taxable securities; nor is it to be less than one-tenth of 1 per cent of the market value of the capital stock. The tax is paid by the domestic corporation to the state treasurer. The return also gives a list of stockholders, with their holdings and addresses.

The Tax Commissioner in determining the value of the corporate franchise of a business corporation may not take into consideration any debts of the corporation, unless the returns contain a sworn statement that no part of such debt was incurred for the purpose of reducing the amount of taxes.

Beginning with 1909, all of the tax apportioned to non-resident stock remains with the state and the rest of this tax is distributed, one-half to the cities and towns where the tangible property of the corporation is located and the other half to the cities and towns where the stockholders live. Shares in companies paying this tax are not taxed to the owner as personal property. Bonds of these companies are so taxed.

The tax upon railroad companies is on the same basis as the tax on corporations generally, namely, "corporate excess." Provision is made for a proportionate assessment of the tax where the line of the road extends outside the state. Every railroad corporation organized in the state returns a complete list of its stockholders, with residences and number of shares, and also a statement in detail of the works, structures, real estate, and machinery owned by the corporation and subject to local taxation, with location and value. Every railroad corporation, whether organized in this state or elsewhere, returns a statement of the whole length of its lines, and of so much of the length of its lines as is outside the state.

The Tax Commissioner ascertains from the returns or otherwise the true market value of all shares of every railroad corporation, which shall be taken as the true value of its corporate franchises. From this is deducted, in the case of both foreign and domestic corporations, so much of the value of its capital stock as is proportional to the length of that part of its lines, if any, lying without the state, and also the value of its real estate and machinery subject to local taxation within the state, for which purpose the assessed value may be taken as the true value. Upon the valuation so found the railroad pays to the state a tax at the average rate throughout the state.

No taxes are assessed locally upon the shares of any railroad which pays a tax on its corporate excess. Such proportion of the tax collected of a railroad corporation as corresponds to the proportion of its stock owned by residents of the state is distributed to the towns in which such owners respectively reside. Bonds of railroad companies are taxable to the owner as personal property.

348. The Federal Income Tax[15]

BY EDWIN R. A. SELIGMAN

The enactment of the income-tax law of October 3, 1913, marks a new stage in the history of American finance. The American tax was designed from the very outset as an integral and permanent part of the fiscal arrangements.

The chief argument which was responsible for the passage of the Sixteenth Amendment and for the enactment of the law was that wealth is escaping its due share of taxation. Again and again in the course of the discussion attention was called to the fact that our federal system of taxes on expenditure puts an undue burden on the small man; and when the objection was made that the principle of ability to pay is recognized in state and in local taxation, the ready answer was found that in actual practice our state and local revenue systems fail almost completely to reach those taxpayers who can best afford to contribute to the public burdens.

Under the provisions of the statute the tax is imposed upon the entire income of every American citizen, whether residing at home or abroad, as well as upon that of every person residing in the United States although not a citizen thereof. In the case of non-citizens of the United States residing abroad, the tax is assessed upon the income from all property owned, and from every business, trade, or profession carried on, in the United States.

The law applies not only to individuals but to corporations. The income tax is payable by every corporation, joint-stock company, or association, and every insurance company organized in the United States, with a few exceptions.

It is easy to say that income should be taxed, but it is not so easy to define what is meant by income. The law of 1913 states that net income shall include gains, profits, and incomes derived from salaries, wages, or compensation for personal services of whatever kind, and in whatever form paid; or from professions, vocations, businesses, trade, commerce, or sales or dealings in property, whether real or personal, growing out of the ownership or use of, or interests in, real or personal property; also from interest, rents, dividends, securities, or the transaction of any lawful business carried on for gain or profit, or gains or profits and income derived from any source whatever, including the income from, but not the value of, property acquired by gift, bequest, devise, or descent.

[15]Adapted from "The Federal Income Tax," in the *Political Science Quarterly,* XXIX, 1–4, 11, 13–18. Copyright (1914).

In discussing the question of tax rates the two chief problems are those of *exemption* and of *graduation.*

The most important point to be noted under the head of exemption is the fact that the tax applies to individual incomes only when they exceed $3,000. In this bill, as originally drafted, the exemption was put at $4,000. In the course of the discussion, however, and partly as a concession to the feeling that the limit was excessive, it was reduced to $3,000, with additional exemptions of $500 or $1,000 for children. In the final draft, while the figure of $3,000 was retained, the exemption for children was eliminated and was replaced by an additional exemption of $1,000 for a married couple. A total exemption, however, of $4,000 only is permitted in the case of aggregate income of husband and wife when living together. It is to be noted, moreover, that the exemption applies to the first three or four thousand dollars respectively of any amount of income; that is to say, three or four thousand dollars respectively are always to be deducted from the net income, in order to reach the taxable income.

The consideration of tax rates involves not only the question of exemption, but that of graduation. It is significant that the principle of progressive taxation evoked almost no discussion. The legitimacy of the theory was taken for granted. In considering the question of graduation, only two difficulties confronted the framers of the bill. The one was how to make a workable system of progressive taxation harmonize with the administrative methods employed; the other how to oppose with success the demands of the radicals.

The former difficulty is connected with the principle of stoppage at source, to be discussed below. It is clear that if a tax is paid at the source by the income-payer, rather than by the income-recipient, it is not easy to introduce a graduated scale. The bonds of a corporation, the tax on the income of which is withheld by the corporation, may be owned by a person of very small or of very large total income.

This problem had, however, recently been solved in England, where a uniform rate is imposed upon all taxpayers, and is assessed on the principle of stoppage at source. This remains the backbone of the tax. Then on all individual incomes above a certain figure, a so-called super-tax is levied upon the income as a whole. The same plan has been adopted in the new American law. The uniform tax levied upon all incomes, primarily by the method of stoppage at source, is called the normal tax, and is assessed at the rate of 1 per cent. The extra tax is called the additional tax or surtax and is assessed on the entire income of individuals, according to a graduated

scale. The advantage of this ingenious scheme is that the constituent parts of the income of any individual will be reached in large measure by the normal tax, and in such a way that the government will be able to ascertain the facts. The returns made by individuals for the additional tax can, to a considerable degree, thus be checked up, and the fiscal interest of the government be protected. The protection is, however, not complete; for, the principle of stoppage at source does not apply to all incomes within the United States, and implies only in an imperfect way to incomes received abroad. To a very large extent, however, the protection is undoubted. Thus it may be said that the old problem of the incompatibility of graduated taxation with stoppage at the source has been attacked with a fair prospect of success.

The other difficulty with which the framers of the bill had to cope was the danger of an exaggerated application of the progressive scale. In the original bill, the clause relating to the "additional" tax was so framed as to impose 1 per cent on incomes from $20,000 to $50,000, 2 per cent on incomes from $50,000 to $100,000, and 3 per cent on incomes above $100,000. In the course of the discussion, however, many amendments were introduced calling for much higher scales. The general feeling was that the graduated scale contained in the bill was not high enough. For instance, Senator La Follette proposed a scale which ran up to 10 per cent. As a result of the discussion the Finance Committee of the Senate saw that some concession was inevitable. Under the law as it was finally enacted, the rates of the "additional" tax are as follows:

Per cent	On Amount Exceeding	And Not Over
1	$ 20,000	$ 50,000
2	50,000	75,000
3	75,000	100,000
4	100,000	250,000
5	250,000	500,000
6	500,000	

The maximum rate of the income tax as a whole, therefore, under the new law, is somewhat under 7 per cent. This is somewhat lower than either the English maximum or that of the recent German *Wehrsteuer.*

The provisions in the new law which deal with the methods of assessment and collection involve a fundamental departure from the theory of all preceding income taxes in the United States. As has been frequently pointed out, the two chief types of income tax

are the personal or lump-sum tax, where everyone is compelled to make a return of his entire income from whatever source derived, and the stoppage-at-source tax, the theory of which is that it should be collected from the person or agency paying the income, rather than from the individual who receives it. The argument in favor of payment at source is the double one of protecting the honest taxpayer, and of safeguarding the interests of the Treasury. There is little doubt that a purely personal lump-sum income tax resting primarily on the declaration of the individual would be as much of a failure in the United States as was the original income tax in England or the American income tax in the years subsequent to the Civil War. It was to avoid these evils that England adopted the principle of stoppage at source to a certain extent at least, and that some other countries have in a minor degree followed this example. It was reserved, however, for the United States to apply the principle in a more thoroughgoing fashion than is the case anywhere else.

The law provides that "all persons or firms, co-partnerships, companies, corporations, joint-stock companies or associations, in whatever capacity having control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income of another person, subject to tax" are required to deduct and withhold the annual tax of 1 per cent from all "interest, rent, salaries, wages, premiums, annuities, compensation, remuneration, emoluments, or other fixed or determinable annual gains, profits, and income of another person exceeding $3,000 for any taxable year." In the case of payment of interest on bonds and mortgages or of trusts or similar obligations of corporations, as well as in the case of collections of interest and dividends on foreign bonds and stocks not payable in the United States, the tax is to be deducted on all sums irrespective of whether or not the payments amount to $3,000. The obligation to withhold the tax is not applicable to three cases. First, it does not apply to the dividends on the stock of corporations for the reason that all such corporations are subject to the tax on their net income, irrespective of whether they pay out this income as dividends or allow it to accumulate as surplus and undivided profits. Secondly, the obligation to withhold the tax does not apply to the interest on bonds, mortgages, equipment-trust, receivers' certificates, or similar obligations of which the bona fide owners are citizens of foreign countries and residing abroad. Thirdly, it does not apply to the payments to a corporation, the reason for this obviously being that all corporations are required to file a complete return of all of their income, and that the books of the corporation are open to inspection by the revenue authorities.

349. Public Capitalization of the Inheritance Tax[16]

BY ALVIN S. JOHNSON

There are new burdens to be assumed, and tremendous ones, just over the present horizon of the state. Pensions for the superannuated and disabled, relief for the sick, reformation of the outcast, subsidies for indigent motherhood, conservation of child life and of the human resources we now neglect through parsimony in educational effort are among the burdens which the state will in the end be forced to assume. Whether we approve or disapprove of the state assumption of responsibilities of this nature, as dispassionate observers of historical tendencies we are compelled to admit that in every modern state the party of "social reform" is making rapid headway. There is in the existing social constitution no opposing force powerful enough to prevent the ultimate realization of part, if not of the whole, of the program of the social reformers. With the new fiscal burdens that will have to be assumed, new sources of revenue must be found, or old sources must be made more fruitful. It is a realization of this situation that fixes the eye of the democracy upon the vast mass of wealth passing each year from the able hands of its accumulators to the hands of all but passive heirs. What profit shall the democracy fix for itself on death's turnover?

To Adam Smith and his immediate successors the inheritance tax presented one serious defect: it is an unthrifty tax, falling, not upon "revenue," but upon capital, and hence tends to deplete the national stock of parent wealth. If this view of the matter is valid, the progress of inheritance taxation as a source of ordinary revenue cannot be regarded as an unmixed good. Admitting, as we must, that the maintenance of the capital stock is not in itself the highest end of social policy, and that we must at times accept capital depletion as the legitimate cost of a higher good, we are yet not justified in overlooking the fact that the dissipation of accumulated capital is a social cost which should be reduced to a minimum, so far as this is possible. This point, I assume, scarcely needs argument, as the social-economic value of thrift is one of the best-established values of economic theory.

The inheritance tax rests upon the entire mass of wealth, including that which originates in unearned increment as well as that which originates in saving. But the state does not take from a given inheritance proportionate shares of the lands, reproducible goods,

[16]Adapted from "Public Capitalization of the Inheritance Tax" in the *Journal of Political Economy,* XXII, 160–180 (1914).

franchises, and other privileges that compose it. The public authority demands money, and this is drawn, in one way or another, from liquid capital. The whole of the inheritance tax, then, is paid out of the fund of fluid, mobile capital, which is the sole financial basis of the goods which conserve or increase our productive equipment—the fund of which it may properly be said that it originates in saving.

With rates of inheritance taxation so light and accumulations so large as they are in most of our states, the tendency of such taxes to trench upon accumulated capital may be almost negligible. But it would be hazardous to assume that accumulation in the United States can continue indefinitely at the present rate. Our large savings from income may be explained, in part at least, by economic conditions which are manifestly transitory. Our working class, recently transplanted from a less fertile economic field, secure incomes in excess of their accustomed needs, and accordingly have a surplus for accumulation. Our men of wealth, newly enriched, have not, as a class, acquired the art of luxurious consumption. Their incomes outrun their expenditures, and the surplus accumulates without active effort on their part. New opportunities presented by nature or created by society have always been available and have served as an additional stimulus to thrift. One cannot gain title to a homestead, one cannot seize and exploit coal lands or street-railway franchises, without the control of funds accumulated from income. Rarely, in a rapidly developing economic state, is it possible for an entrepreneur to draw from pre-existing funds all the capital requisite to a full exploitation of his opportunities. He must supplement the funds which he already owns and those which he can borrow with funds saved from his current income, if he is unwilling to forego many chances of great profit. "Unearned increment" thus serves as a premium upon thrift.

As our economic conditions become more settled the unearned increment loses much of its potency as a stimulus to thrift. Furthermore, our laborers are raising their standards of living and our capitalists are learning the ways of a society which knows how to spend its income. How soon the rate of accumulation will begin to decline, and how rapid the decline will be, we need not attempt to predict. For our present purpose it is sufficient to point out that a tax rate which would today absorb 20 per cent of our annual accumulations would absorb a much larger percentage of the annual accumulations of, say, 1964.

Granted, then, that the evil of unthrifty inheritance taxes is negligible at the present time, when the taxes are light and the rate of accumulation is high. Such taxes, nevertheless, are destined to become heavier and the rate of accumulation is destined to become

less. The evil, obviously, is one which has the capacity of growing into importance.

If the inheritance tax is indeed affected with the vice of unthrift and if the defect may lead to such serious consequences as have been indicated, it might be thought to be a part of wisdom to abandon the tax altogether, or to restrict it to so narrow a range that its power of destroying accumulated capital would be negligible. To propose such a restriction of the tax, however, would be idle, in view of the powerful social and political forces to which its development responds. Economists may urge the necessity of capital conservation, but the democracy will be slow to recognize such necessity, so long as the alternative to a policy of public dissipation of capital is the perpetuation of vast private estates. Must we accept this alternative? There seems to be no good reason why we should. There is nothing in the nature of the state which requires it to assume the rôle of a prodigal heir who squanders his inheritance upon current needs instead of administering it prudently with a view to its future increase. The state can adopt the same policy which every prudent person recommends to the private heir. It can treat capital acquired through inheritance as a fund to be maintained intact. Let the state set apart, as a permanent investment fund, the proceeds of all inheritance taxes, and depletion of the natural capital will at once cease.

The public capitalization of the inheritance tax would tend to conserve the national stock of productive wealth. It is a policy that would encounter no insuperable administrative difficulties; it would not seriously prejudice the interests of the private investor. Politically and socially such a policy, if it has potentialities for evil, would appear to have far greater potentialities for good.

There is manifestly nothing revolutionary in principle in a capital fund owned and managed by the state for the benefit of a particular public service. Public and semi-public endowment funds now in existence in this country amount, in the aggregate, to an imposing sum. We are living in an epoch in which the funded endowment is employed with growing frequency. There is an increasing reluctance on the part of private donors to contribute funds merely for current expenditures; there is an increasing tendency on the part of public and semi-public institutions to transform extraordinary current receipts into permanent endowment. Not on principle, then, can a plan of the permanent endowment of a public service be treated as revolutionary. If there is anything revolutionary in the plan, it must consist solely in the magnitude of the operations that it would entail.

Defenders of an economic system based upon the principle of private property must admit that at two points their position is de-

cidedly weak: the private enjoyment of funded income, and the private burden upon the worker of mischances against which it is impossible for him to make provision. The private recipient of an absolutely secure funded income is freed from the necessity of exercising the skill and foresight which serve, in general, as an ethical basis for the defense of private property. The active manager of an industrial capital finds his position morally weakened by the fact that his property income is assimilated, in the social consciousness, to that of the functionless "remittance man." However much we may approve of the policy of throwing upon each able-bodied man the responsibility for finding means of self-support, we must admit that hundreds of thousands of our workingmen are exposed to chances against which they can make no adequate provision. For hundreds and thousands of our city workers, the only escape from an indigent old age is premature death. For hundreds of thousands of families, the death of the chief breadwinner means the maiming of children's lives almost past recovery. A system which permits such evils is surely not free from moral weakness. Now, the general tendency of the policy which I propose is to divert to the state part of the funded income of society from the private recipients in whose hands it subserves no useful purpose, and to charge upon it precisely those burdens by which the weak are now crushed. Not by the rough method of expropriation, however, but by a method which is legal as well as ethical, and which entails no sacrifice of the future to present gain. The public capitalization of inheritance taxes would result in an accumulation of funds which would be gradual, and it would hence leave opportunity for the development of efficient means of administration. Under this plan public accumulations would constantly increase; but their increase could never become so great as to restrict the field of private property unless private accumulations should come to a standstill and opportunities for private exploitation should fail.

F. THE SINGLE TAX

350. The Increase in Land Values

a) Land Values in the Fifteenth Century[17]

BY THEROLD ROGERS

During the fifteenth century, notwithstanding the difficulties and losses of the landowner, the value of land rose rapidly. In the fourteenth century it was constantly obtained for ten years' purchase,

[17]Adapted from *Six Centuries of Work and Wages,* 287.

the amount of land in the market being probably so abundant, and the competition for its purchase so slight, that it easily changed hands at such a rate. Land was valued at twenty years' purchase in the middle of the fifteenth century.

b) Rents in the Sixteenth Century

BY HUGH LATIMER

Land which went heretofore for twenty or forty pounds a year now is lent for fifty or a hundred. My father was a yeoman, and had no lands of his own, he had a farm at a rent of three or four pounds by the year at the uttermost; and thereupon he tilled so much as kept half a dozen men. He had walk for a hundred sheep, and my mother milked thirty kine. He kept me to school; he married my sisters with five pounds apiece, so that he brought them up in godliness and fear of God. And all this he did of the same farm where he that now hath it payeth sixteen pounds rent or more by the year, and is not able to do anything for his prince, for himself, nor for his children, nor to give a cup of drink to the poor.

c) The Power of Landlords[18]

BY THOMAS SPENCE

And any one of them (the landlords) still can, by laws of their own making, oblige every living creature to remove off his property; so, of consequence, were all the landholders to be of one mind, and determine to take their own properties into their own hands, all the rest of mankind might go to heaven if they would, for there would be no place found for them here. Thus men may not live in any part of this world, not even where they are born, but as strangers, and by the permission of the pretender to the property thereof.

d) The Influence of Rent on Trade and Commerce[19]

BY A. O'CONNOR

What are the circumstances under which manufacturing industry is carried on in this country in respect of the use of land? With the falling in of leases so much higher a ground rent is charged that even with an increase of business there is less profit. Not only

[18]From a lecture delivered before the Philosophical Society of Newcastle in 1775. Quoted in Wallace, *Studies Scientific and Social,* II, 435.

[19]Adapted from *Special Report of the Royal Commission on the Depression in Trade and Industry* (1885).

in London does the amount paid for the occupation of ground bear a higher proportion to the profits of trade than it formerly did, but in Birmingham too, where trade prices have been lowered, profits reduced, and wages are less, and where there are large numbers of persons vainly seeking employment, the price which has to be paid for the use of land has increased. The evidence on this point from Sheffield, again, was of the clearest; and it was shown that in Jarrow, which the shipbuilding industry may be said to have created, the landowners draw from the earnings of the industrial classes an immense income in consideration of the occupation of ground the improvement in the value of which is in no way attributable to them. And so of other places. As in the agricultural and mining districts, so in the industrial and manufacturing centres, the amounts which have to be paid for the use of land constitute a burden upon industry which is constantly becoming heavier, both absolutely and relatively. It thus appears that over the entire country there is a cause at work — general, permanent, and far-reaching — affecting every branch of industry, in mine, and farm, and factory, the effects of which are traceable in the languishing condition of the agricultural, and the mining, and the manufacturing interests. That cause is the fact that under the existing land system the owners of the soil are able to obtain, and to exact, so large a proportion of the proceeds of the industry of the United Kingdom that the remainder is insufficient to secure adequate remuneration to the industrial classes, either in the shape of wages to operatives or reasonable profit to the organisers of labour, the employers, or capitalists.

c) A Land Boom in Iowa

BY ALFRED RUSSEL WALLACE

I stayed some time in a growing city in Iowa, called Sioux City, which has a population of 20,000. They were having what is called a land boom—every city tries its best to have one—we should call it a land fever; and the consequence was that land which sold at $50 an acre three years ago was selling at $750. It was two miles from the city and it was sold with the idea that the city would soon stretch out, and reach it. In the residential suburbs the price obtained was $22,000 an acre, and in the centre of the city it was $200,000 an acre. In the town of Salina, in Kansas, with a population of only 8,000, land in the suburbs is now selling at $22,000 an acre, and in the centre of the town at $150,000 an acre. Here also they have had a boom, and land has doubled in value in a few months.

f) *The Social Importance of Rent*[20]

BY ALFRED RUSSEL WALLACE

Rent is the equalizer of opportunities, the means of giving fair play to all cultivators of the soil in the struggle for existence. Farms differ greatly in value because of differences in fertility and differences in location as regards the market. The owner of a very fertile farm near the railroad has quite an advantage over one whose farm is less fertile and far removed from the main lines of communication. It is just the same with shops and stores. The business done, other things being equal, will depend upon the location. Now prices are fixed by the competition of the whole of the stores or farms. Because of the strength of the more favored class, were there no rents, the less favored class would be driven out and the whole business absorbed by their more fortunate rivals. But if all these shops belong to landlords, whether private individuals or municipalities, then rents will be so much higher in one case than in the other as to equalize the opportunities of both. Both will then be able to earn a living for a time, and the ultimate superior success of either will be a matter of business capacity. The competition between them will be fair and equal.

The same thing happens with rival manufacturers. Facilities for getting raw materials, cheapness of power, enable one to undersell another, and ultimately to drive him out of the market, unless the former is subjected to an increased rent, to compensate for his advantage of position.

g) *The Benefits of Improvement*[21]

BY ADOLPH WAGNER

The great expenditure of the State out of the resources of the entire population, and with the increasing population, for the most part out of the resources of those who do not own land, for street sanitation, education, etc., has ultimately the tendency to increase the height of rent and the value of property in urban lands and buildings, because the increase in the urban population is thereby favored. In such cases the urban landowner profits doubly, and the landless population pays in taxes the money for expenditure which indirectly leads to a new increase in rents, thus suffering in two ways.

[20]Adapted from "The Social Quagmire and the Way out of It," in *Studies Scientific and Social*, II, 404–405 (1900).

[21]Adapted from *Grundlegung der politischen Oekonomie*, 658–659 (1892).

351. The Social Injustice of Rent[22]

BY HENRY GEORGE

The coal and iron fields of Pennsylvania, that today are worth enormous sums, were fifty years ago valueless. What is the efficient cause of the difference? Simply the difference in population. The coal and iron beds of Wyoming and Montana, which today are valueless, will in fifty years from now be worth millions on millions simply because in the meantime population will have greatly increased.

The man who sets out from the Eastern seaboard in search of the margin of cultivation, where he may obtain land without paying rent, must, like the man who swam a river to get a drink, pass for long distances through half-tilled farms, and traverse vast areas of virgin soil, before he reaches the point where land can be had free of rent. He is forced so much further than he otherwise need have gone by the speculation which is holding these unused lands in expectation of increased value in the future.

That land speculation is the cause of industrial depression is clearly evident. In each period of industrial activity land values have steadily risen, culminating in speculation which carried them in great jumps. This has been invariably followed by a partial cessation of production accompanied by a commercial crash; and then has succeeded a period of comparative stagnation, during which again the equilibrium has been slowly established, and the same round has been run again.

Land can yield no wealth without the application of labor; labor can produce no wealth without land. These are the two equally necessary factors of production. Yet to say that they are equally necessary is not to say that in the making of contracts as to distribution, the possessors of the two meet on equal terms. For the nature of the two factors is very different. Land is a natural element; the human being must have his stomach filled every few hours. Land can exist without labor; but labor cannot exist without land. Land can lie idle for years, and it will eat nothing. But the laborer and his family must eat every day. And so in the making of terms between them the landlord has an immense advantage. And, further than this, as population increases, as the competition for the use of land becomes more and more intense, so are the owners of land enabled to get for the use of their land a larger and larger part of the wealth which labor exerted upon it produces.

[22]Adapted from *Progress and Poverty,* Book IV, chaps. ii, iv, and Book V, chap. i (1879), and *The Land Question,* 62 (1881).

That is to say the value of land steadily rises. This steady rise brings about confident expectations of future rises of value, which produces among landowners all the effects of a monopoly to hold for higher prices. Thus there is a constant tendency to force mere laborers to take less and less or to give more and more of the products of their work for the opportunity to work. In course of time, in any society, some of the people are able to take and enjoy a superabundance of all the fruits of labor without doing any labor at all, while others are forced to work the livelong day for a pitiful living.

352. The Theoretical Basis of the Single Tax[13]

BY C. B. FILLEBROWN

The argument in favor of the single tax may be put briefly as follows: The three economic legs necessary and sufficient whereupon the single tax stool may firmly stand are found in three generic peculiarities quite exceptional in their nature, which distinguish land from man-made products. The failure to recognize this distinction is sufficient to account for the crookedness of the present system of taxation. These three attributes, firmly grounded in orthodox economics, are as follows: (*a*) The site value of land is a social product. (*b*) A land tax cannot be shifted. (*c*) The selling value of land is an untaxed value. These three fundamentals are worthy of brief separate consideration.

First in order is that land value is a social product, that it is created principally by the community through its activities, industries, and expenditures. The value of land is based upon economic rent, "what land is worth for use." Strictly speaking this worth for use attaches itself not only to the ground but to scores of things exterior to it and through it made available for use. In practice the term land is erroneously used to include destructible elements which require constant replacement; but these form no part of the economic advantage of situation. Ground rent may be said to result from at least three distinct causes, all of which are connected with aggregated social, as distinct from individual, activity: (1), public expenditure; (2), quasi-public expenditure; (3), private expenditure. Thus their very nature and origin would seem to point to land values as peculiarly fitted to bear justly the burden of taxation.

Second in order is the fundamental fact that a tax upon ground rent cannot be shifted upon the tenant in increased rent. Ground rent is determined, not by taxation, but by demand. Ground rent

[23]Adapted from *The A-B-C* of Taxation, 155–163. Copyright by the author (1909).

is the gross income, a tax is a charge upon this income. A tax may be conceived of as a lien upon land held by the state. It affects the relations between owner and state; it has no bearing upon the relations between owner and tenant. Tax is simply the name of the gross ground rent which is taken by the state in taxation, the other part going to the owner. The greater the tax the smaller the net rent to the owner and vice versa. Ground rent is "all that the traffic will bear." The owner gets all he can for the use of his land whether the tax be light or heavy. Putting more tax upon land will not make it worth more for use.

Third is the necessary corollary that the selling value of land is an untaxed value, a proposition which has not been seriously questioned by economists. Every purchaser of a piece of property knows without argument that he is governed as to the price he will pay, not by the gross income, but by the net income that will remain to him after all charges and incumbrances have been discharged. Landowners who invest today are entirely exempt from taxation. It is in the very nature of things that the burden of a land tax cannot be made to survive a change of ownership.

If it is admittedly wrong that present land values should be untaxed, how can such fiscal wrong best be righted? Begin at once a transfer of taxes from improvements to land, so gradual that two old injustices will cease for every new one that is begun, until this untaxed value is made to bear at least its proportionate burden at the same rate with other things. If economists and taxation experts will quit their dead reckoning and steer their craft by the single-tax polestar, time and tide will do the rest.

353. A Criticism of the Single Tax[24]

BY CHARLES J. BULLOCK

In studying Mr. George's plans for land nationalization, the following considerations are important:

In one sense of the word, economic rent may be called an unearned income; yet it accrues mainly to people who incur the risks of investing in land, and cannot be secured without the exercise of foresight. Now, Mr. George assumes that such investors never lose, but always gain. This is far from true. At present, investors run the risk of loss when they purchase land and improve it. This risk is counterbalanced by the prospect of an increase in economic rent. Mr. George would have the state appropriate all such incre-

[24]Adapted from *Introduction to the Study of Economics,* 454–456. Copyright by Silver, Burdett & Co. (1908).

ments of economic rent, while investors would bear all the losses on improvements that should become unprofitable on account of changes in the direction of the growth of the community. The late President Walker said, justly, "Heads I win, tails you lose, is not a game at which the state can, in fairness or decency, play a part." If the state takes from an investor all increments of rent due to social causes, it should guarantee him from losses on capital invested in improvements, provided that those losses result from social causes over which he has no control.

As a revenue measure, the single tax would often prove a disappointment. In England, for instance, the rents of practically all agricultural lands have steadily fallen for more than twenty years.

If the English government had bought out all owners of agricultural lands at the time when the Land Tenure Reform Association proposed such a course, it would have made a decidedly bad investment. In many states of our Union the same thing is true of agricultural rents, while it has occurred repeatedly in cities.

We must admit that a large unearned increment of ground rents is secured by the owners of specially favored lots. No one would question the justice of imposing a part of the burden of taxation upon such an income; but we should not forget that there are other unearned incomes besides those secured from some pieces of land. When a monopoly of any sort develops an unusually profitable field of investment, part of the monopoly profits are an unearned income, and should be taxed also. As a simple matter of fact, all those persons who have the good fortune to be favorably affected by each actual turn of social development are likely to receive unearned incomes. It is just to tax all of these incomes whenever they can be reached with certainty; but to tax them all away is quite a different matter. Finally, in the United States, there are practically no restrictions upon the purchase or sale of land. Any unearned increment is likely to be distributed quite widely, because landownership is widely extended.

Mr. George's plan of confiscating the value of land without compensating present owners does not appeal to the conscience of the average American as just. Society has allowed private landownership in this country ever since English settlement. The present owners have invested in land in good faith. If it should be decided inexpedient to continue our present system, the burden of the change should not be thrown upon the single class of landowners.

XIV

COMPREHENSIVE SCHEMES OF SOCIAL REFORM

"Social unrest" is not an exclusive and prized possession of Modern Industrialism. The voice of prophet, of seer, or reformer, has long been heard in the land, condemning the prodigal waste of the rich, the unjust distribution of "the common store of earthly wealth," the institutions which "create and perpetuate artificial class differences," and the "tangled scheme of human affairs" which we call life. Peculiar as are the voices condemning the society we know, they are like those of other times in demanding "a way out."

That all is not good is clearly realized by even the most stalwart of individualists. In devious ways they would guide us out of the social wilderness. One would leave "natural selection" to "eliminate the unfit," to free us from "the spawn of earth," and to make us a happier society by making us a better people. Another would substitute a large program, and a still larger spirit, of co-operation for "the sordid greed of competition" that "makes chaos of economic cosmos." The utopian dreams of co-operation, however, have recently been blighted by a cool analysis which shows that its promises are bright but not spectacular. Most prominent just now is the program of those wise in the lore of business who promise a transformed society through the magic of profit-sharing, "scientific management," and "welfare work." Give them control of technique, organization, and working conditions, and they will fill the land with plenty, the while raising labor to a pinnacle before undreamed of. Through their superimposed scheme the unwilling laborer is to be fed, clothed, housed, recreated, amused, educated, and introduced into a new paradise. If he fails to get what he wants—if industrial democracy fails of realization—he will at least get what is good for him. A supreme pre-wisdom will supplant his shortsightedness.

But the non-individualists are even more bent upon a transformation of industrial society. One program of reconstruction, a program inherent in the activity of a number of groups, rather than consciously formulated, is well under way. It is evident in the tendency toward government regulation—and even ownership—of railroads and capitalistic monopolies; in the proposal to choose our own population by a regulation of births and of immigration; in the attempt through state action to eliminate economic insecurity; in the growth of a spirit of group solidarity so apparent in unionism; in a formal modification of the "fundamental" institutions of society, and informal change through taxation and social convention. The extent to which this program will be realized—and whither it is tending—only the future can reveal.

A more drastic program, springing from a similar philosophy, is presented in socialism. Its strength lies partly in the "righteous indictment" which it can make against the "capitalistic organization of society," and partly in the sublime faith which the classes to which it appeals have in the efficacy of elaborate social machinery to eliminate social evils. The analysis of society made by most of its advocates is immediate, and loses sight of several "long-time" considerations, such as control of numbers and the accumulation of capital. Socialism, however, is losing its militancy. As its numbers increase, it is less and less disposed to "see red." In its latest manifestations it has become conventionally "respectable." It is hard

to distinguish between the "evolutionary socialist" of today and the out-and-out progressive. The radical members are leaving the ranks of socialism to fight for "something worth while" with the syndicalists and the "revolutionary unionists." To find the radical spirit of protest we must turn to these latter organizations.

But what of the future of industrial society? What is going to become of it? When will it solve its problems? When shall we attain unto peace and plenty? Perhaps we can find some consolation in the fact that even the wisest of men have constantly despaired of the future of society. Perhaps we can solace ourselves with hope, which is ours eternally. From the biblical dream of the "New Jerusalem" to Wells's vision of "A Modern Utopia," we have had pictures a-plenty of the perfect state which "some day" will be realized. We have always had, and still have, wise men who furnish us with magical formulae for finding "the way out." While most of these are so simple as to tax our credulity, few of them fail to contain some germ of social wisdom.

But, in anticipating the future, we must not forget that our social resources are—and ever must be—*limited.* We must not overlook the fact that the interests of all are *not identical.* There will ever be the necessity for a struggle with finite resources, and consequent economy. There will ever be competition for the larger shares of social income. If we intelligently attempt to direct the course of our development, if we try honestly to make the best possible contribution to the solution of the world-old enigmas of society, if we do our best to rid the immediate situation of its grosser incompatibilities, there is reason for thinking that development will more closely accord with that which we call "progress," that the newer social world will be somewhat more to the liking of the people who have to put up with it than the old. We shall not have freed future generations from having to "solve problems," but perhaps we shall have given them new problems somewhat further removed from "the margin of life." And thus we come to the end—and to the beginning—of our study.

A. THE VOICE OF SOCIAL PROTEST

354. Privilege and Power

a) Woe to the Idle Rich[1]

Woe to them that are at ease in Zion, and to them that are secure in the mountain of Samaria, the notable men of the chief of the nations, to whom the house of Israel come! Pass ye into Calneh, and see; and from thence go ye to Hamath the great; then go down to Gath of the Philistines: are they better than these kingdoms? or is their border greater than your border?—ye that put far away the evil day, and cause the seat of violence to come near; that lie upon beds of ivory, and stretch themselves upon their couches, and eat the lambs out of the flock, and the calves out of the midst of the stall; that sing idle songs to the sound of the viol; that invent for themselves instruments of music, like David; that drink wine in bowls, and anoint themselves with the chief oils; but they are not

[1]Amos, 6:1–7 (750 B. C.)

grieved for the affliction of Joseph. Therefore shall they now go captive with the first that go captive; and the revelry of them that stretched themselves shall pass away.

b) The Daughters of Zion[2]

Moreover Jehovah said, Because the daughters of Zion are haughty, and walk with outstreched necks and wanton eyes, walking and mincing as they go, and making a tinkling with their feet; therefore the Lord will smite with a scab the crown of the head of the daughters of Zion, and Jehovah will lare bare their secret parts. In that day the Lord will take away the beauty of their anklets, and the cauls, and the crescents; the pendants, and the bracelets, and the mufflers; the headtires, and the ankle chains, and the sashes, and the perfume boxes, and the amulets; the rings, and the nose jewels; the festival robes, and the mantles, and the shawls, and the satchels; the hand-mirrors, and the fine linen, and the turbans, and the veils. And it shall come to pass, that instead of sweet spices there shall be rottenness; and instead of a girdle a rope; and instead of well set hair, baldness; and instead of a robe, a girdling of sackcloth; branding instead of beauty.

c) Why the Lords?[3]

BY JOHN BALL

By what right are they whom we call lords greater folk than we? Why do they hold us in serfage? They are clothed in velvet, while we are covered with rags. They have wine and spices and fair bread; and we oat-cake and straw, and water to drink. They have leisure and fine houses; we have pain and labor, the rain and the wind in the fields. And yet it is of us and our toil that these men hold their state.

d) Government and Inequality[4]

BY SIR THOMAS MORE

Is not that government both unjust and ungrateful that is so prodigal of its favors to those that are called gentlemen, or such others who are idle, or live either by flattery or by contriving the arts of vain pleasure, and, on the other hand, take no care of those of a meaner sort, such as ploughmen, colliers, and smiths, without

[2]Isa., 3:16–24 (750 B. C.)

[3]Quoted in Wallace, *Studies Scientific and Social,* II, 432 (1366?).

[4]Adapted from *Utopia,* Cassell's National Library edition, 17 (1516).

whom we could not subsist? But after the public has reaped all the advantage of their service, and they come to be oppressed with age, sickness, and want, all their labors and the good they have done is forgotten, and all the recompense given them is that they are left to die in great misery. The richer sort are often endeavoring to bring the hire of laborers lower—not only by their fraudulent practices, but by the laws which they procure to be made to that effect; so that though it is a thing most unjust in itself to give such small rewards to those who deserve so well of the public, yet they have given those hardships the name and color of justice, by procuring laws to be made for regulating them.

Therefore, I must say that, as I hope for mercy, I can have no other notion of all the governments that I see and know than that they are a conspiracy of the rich, who, on pretense of managing the public, only pursue their private ends, and devise all the ways and arts they can find out; first, that they may, without danger, preserve all that they have so ill acquired, and then that they may engage the poor to toil and labor for them at as low rates as possible, and oppress them as much as they please.

e) The Possibilities of Production[5]

BY RICHARD JEFFREY

I verily believe that the earth in one year can produce enough food to last for thirty. Why then have we not enough? Why do people die of starvation, or lead a miserable existence on the verge of it? We have millions upon millions to toil from morning till evening just to gain a mere crust of bread? Because of the absolute lack of organization by which such labor should produce its effects, the absolute lack of distribution, the absolute lack of even the very idea that such things are possible. Nay, even to mention such things, to say that they are possible is criminal with many. Madness could hardly go further.

f) The Beginning of It All[6]

BY J. J. ROUSSEAU

The first man, who having enclosed a piece of ground, took thought to declare, "This is mine," and found people simple enough to believe him, was the real founder of civil society. How many crimes, wars, and murders, how much misery and horror would have

[5]Quoted in Wallace, *Studies Scientific and Social,* II, 490–491.
[6]Discours sur l'inégalité, *Œuvres,* I, 551 (1754).

been spared the human race if some one, tearing down the pickets and filling up the ditch, had cried to his fellows, "Beware of listening to that imposter; you are lost if you forget that the land belongs to none and its fruits to all."

355. "Progress and Poverty"

a) *In the Wake of Trade*[7]

BY OLIVER GOLDSMITH

Ye friends to truth, ye statesmen who survey
The rich man's joys increase, the poor's decay,
'Tis yours to judge how wide the limits stand
Between a splendid and a happy land.
Proud swells the tide with loads of freighted ore,
And shouting folly hails them from her shore;
Hoards even beyond the miser's wish abound,
And rich men flock from all the world around.
Yet count our gains; this wealth is but a name
That leaves our useful products still the same.
Not so the loss. The man of wealth and pride
Takes up a space that many poor supplied;
Space for his lake, his park's extended bounds,
Space for his horses, equipage, and hounds:
The robe that wraps his limbs in silken sloth
Hath robbed the neighboring fields of half their growth;
His seat, where solitary sports are seen,
Indignant spurns the cottage from the green:
Around the world each needful product flies,
For all the luxuries the world supplies;
While thus the land, adorn'd for pleasure, all
In barren splendour feebly waits the fall.

b) *When There Was a Frontier*[8]

BY J. B. MC MASTER

The year 1786 in all the states was one of unusual distress. The crops had indeed been good. In many places the yield had been great. Yet the farmers murmured, and not without cause, that their wheat and their corn were of no more use to them than so many bushels of stones; that produce rotted on their hands. That

[7] *The Deserted Village,* lines 265–286 (1770).

[8] Adapted from *The History of the People of the United States,* II, 180. Copyright by D. Appleton & Co. (1885).

while their barns were overflowing, their pockets were empty. That when they wanted clothes for their families, they were compelled to run from village to village to find a cobbler who would take wheat for shoes, and a trader who would give everlasting in exchange for pumpkins. Money became scarcer and scarcer every week. In the great towns the lack of it was severely felt. But in the country places it was with difficulty that a few pistareens and coppers could be scraped together toward paying the state's quota of the interest on the national debt.

A few summed up their troubles in a general way, and declared the times were hard. Others protested that the times were well enough, but the people were grown extravagant and luxurious. For this, it was said, the merchants were to blame. There were too many merchants. There were too many attorneys. Money was scarce. Money was plenty. Trade was languishing. Agriculture was fallen into decay. Manufactures should be encouraged. Paper should be put out.

One shrewd observer complained that his countrymen had fallen away sadly from those simple tastes which were the life-blood of republics. It was distressing to see a thrifty farmer shaking his head and muttering that taxes were ruining him at the very moment his three daughters, who would have been much better employed at the spinning-wheel, were being taught to caper by a French dancing master. It was pitiable to see a great lazy, lounging, lubberly fellow sitting days and nights in a tippling house, working perhaps two days in a week, receiving double the wages he really earned, spending the rest of his time in riot and debauch, and, when the tax-collector came round, complaining of the hardness of the times and the want of a circulating medium. Go into any coffee-house of an evening, and you were sure to overhear some fellow exclaiming, "Such times! no money to be had! taxes high! no business doing! we shall all be broken men."

c) Labor and Value[9]

Wages should form the price of goods;
  Yes, wages should be all;
Then we who work to make the goods,
  Should justly have them all;
But, if their price be made of rent,
  Tithes, taxes, profits all,
Then we who work to make the goods
  Shall have just none at all.

[9]Quoted in the article on "Chartism," in *The Dictionary of Political Economy*, from *The Poorman's Guardian* (1831).

d) The Poor in Manchester[10]

BY FREDERICK ENGELS

The manner in which the great multitude of the poor is treated by society to-day is revolting. They are drawn into the large cities where they breathe a poorer atmosphere than in the country; they are relegated to districts which, by reason of the method of construction, are worse ventilated than any others; they are deprived of all means of cleanliness, of water itself, since pipes are laid only when paid for, and the rivers so polluted that they are useless for such purposes; they are obliged to throw all offal and garbage, all dirty water, often all disgusting offal and excrement into the streets, being without other means of disposing of them. As though the vitiated atmosphere of the streets were not enough, they are penned in dozens into single rooms, they are given damp dwellings, cellar dens that are not waterproof from below, or garrets that leak from above. Their houses are so built that the clammy air cannot escape. The view from the bridge is characteristic of the whole district. At the bottom flows, or rather stagnates, the Irk, a narrow, coal-black, foul-smelling stream, full of debris and refuse, which it deposits on the shallower right bank. Everywhere heaps of debris, refuse and offal; standing pools for gutters, and a stench which alone would make it impossible for a human being in any degree civilized to live in such a district. The whole side of the Irk is built in this way, a planless, knotted chaos of houses, more or less on the verge of uninhabitableness, whose unclean interiors fully correspond with their filthy external surroundings. In truth it cannot be charged to the account of these helots of modern society if their dwellings are not more cleanly than the pigsties which are here and there to be seen among them. My description is far from black enough to convey a true impression of the filth, ruin, and uninhabitableness, the defiance of all considerations of cleanliness, ventilation, and health which characterize this district.

e) Packingtown as a Residential Section[11]

BY A. M. SIMONS

From the general air of hoggishness that pervades everything from the general manager's offices down to the pens beneath the buildings and up to the smoke that hangs over it all, the whole

[10]Adapted from *The Condition of the Working Class in England in 1844*, 49–53 (1848).

[11]Adapted from *Packingtown*, 2–19. Published by Charles H. Kerr & Co.

thing is purely capitalistic. One's nostrils are assailed at every point by the horribly penetrating stench that pervades everything. Great volumes of smoke roll from the forest of chimneys at all hours of the day, and drift down over the helpless neighborhood like a deep black curtain that fain would hide the suffering and misery it aggravates. The foul packing-house sewage, too horribly offensive in its putrid rottenness for further exploitation even by monopolistic greed, is spewed forth in a multitude of arteries of filth into a branch of the Chicago River at one corner of the Yards, where it rises to the top and spreads out in a nameless indescribable cake of festering foulness and disease-breeding stench. On the banks of this sluiceway of nastiness are several acres of bristles scraped from the backs of innumerable hogs and spread out to allow the still clinging animal matter to rot away before they are made up into brushes. Tom Carey, now alderman of this ward, owns long rows of some of the most unhealthy houses in this deadly neighborhood. These houses have no connection with the sewers, and under some of them the accumulation of years of filth has gathered in a semi-liquid mass from two to three feet deep. Shabbily built in the first place and then subjected to years of neglect, they are veritable death-traps. A cast-iron pull with the Health Department renders him safe from any prosecution.

f) Hallelujah on the Bum[12]

"O, why don't you work
Like other men do?"
"How in hell can I work
When there's no work to do?

"O, I like my boss—
He's a good friend of mine;
That's why I am starving
Out in the bread-line.

Chorus:

"Hallelujah, I'm a bum,
Hallelujah, bum again,
Hallelujah, give us a handout—
To revive us again."

"I can't buy a job
For I ain't got the dough,
So I ride in a box-car,
For I'm a hobo.

"O, why don't you save
All the money you earn?"
"If I did not eat
I'd have money to burn.

"Whenever I get
All the money I earn,
The boss will be broke,
And to work he must turn."

[12] *Songs of the Workers*, 34. Published by the *Industrial Worker*. The tune is "Revive Us Again."

356. Expanding Wants and Social Unrest[13]

BY A CAPE COD FISHERMAN

Yes, that's the trouble. My father wanted fifteen things. He didn't get 'em all. He got about ten, and worried considerable because he didn't get the other five. Now, I want forty things, and I get thirty, but I worry more about the ten I can't get than the old man used to about the five he couldn't get.

B. INDIVIDUALISTIC SCHEMES OF REFORM

357. Scrub-Humanity[14]

BY SOLON LAUER

I confess that I have never experienced this "love of mankind" which lies, or is said to lie, at the root of so much benevolence. Most men do not please me. Masses of them stink, and offend me. I am not called to minister unto such as these. Your mongrel stock, your blotched and scrub-eared curs, your flea-bitten sots, your drenched smokers and chewers and swearers, your loafers, your sensualists, with bleary eyes and blotched faces—away with them! Do not ask *me to love them.* I cannot bear them. I have no dollars to nourish their vices. I have no old clothes for the like of them. I will not contribute to your free lodgings for swine. Let them find some wallow where they may roll in their favorite mud! Love them? I would sweep them into the public sewers, with the other refuse of the city, but that I know Nature hath another use for them. *She,* who converts carrion into banks of violets, will in her own good way convert these swine into something other and higher; but She has not asked *me* to help her in this work! If she needs your aid, good philanthropist, give it; but come not to me. *I* perceive that no man can save another wherein he most needs saving.

This "humanity," which the tender philanthropist loves (at a distance) and seeks to save, with his often misplaced benefactions, is to me no airy Phantom, no mere abstract Apparition. I have lived with it, worked with it, eaten and drunken with it, lodged with it; and I know it for the most part to be a most undesirable fellow for comradeship. Its breath is foul; its clothing is redolent of various odors; its speech is coarse and vulgar; its thoughts are not high;—the perfume of an unfolding brain-flower,—but are for the most part mere cerebrations, mere vaporings of passion, mere ebulli-

[13]Quoted in Brooks's *Social Unrest,* 96–97 (1903).

[14]From *Social Laws,* 112–113. Published by the Nike Publishing Co. (1901).

tions of brute instincts. It is poor because it is low, and no riches could ever elevate it above its chosen state. Give it dollars, it will spend them upon its vices chiefly. It will not seek virtue first, as the chiefest wealth of the soul, but wants dollars, dollars, which represent to it more beer, more tobacco, more sensuality, more time to loaf on the street.

Is my picture unwelcome? It is no fancy picture, but painted from life. My art cannot convert loafers into typical saints. If your philanthropy can do so, I shall not object to it.

358. The Promise of Co-operation[15]

BY FRANCIS G. PEABODY

Industrial co-operation is regarded just now by many people as an antiquated and abandoned scheme. Its advantages are moderate in their dimensions and slow in their arrival. It calls for much patience and economy. It takes the world as it is and makes the best of it, instead of condemning it as incapable of good. For all these reasons co-operation is unattractive to those who expect a wholesale and immediate transformation of the industrial order. To such minds revolution looks more promising than evolution; patience seems more like a vice than a virtue; and economy seems to tempt the worker to submission rather than to inflame him with discontent. "Beware of thrift," a revolutionist has said, "it is the workingman's enemy; let him spend what he gets and demand more."

The world of industry, as it might be organized under co-operation, would in its outward form seem not unlike the Co-operative Commonwealth proposed by socialists. Capitalism would be supplanted by common ownership; and the profits of production would accrue to the wage-earners themselves.

Yet in their spirit the two movements have hitherto had little in common. They have stood, back to back, looking out on different worlds. One has welcomed a practical movement toward industrial justice, even though it might not realize all its dreams; the other has found such partial measures obstructive of the comprehensive plan of revolution and tempting working people to an ignoble peace.

It must be admitted that the history of co-operation in the United States goes far to justify either skepticism or hostility. With few exceptions it has been a history of failure. Yet the student finds his attention arrested by the fact that in all the progressive

[15]Adapted from the Introduction to Ford's *Co-operation in New England*, v–xiii. Copyright by the Russell Sage Foundation (1912).

countries of Europe the co-operative system has played a notable part both in advancing the welfare and in consolidating the organization of wage-earners. In England, Ireland, Belgium, France, Italy, and Denmark, distributive stores, agricultural production, banking, farming, building—all these types of co-operative industry present examples of mutual advantage, popular education, and social hope. The single instance of the British organization with its membership, in 1911, of 2,640,091, in 1,407 distributive societies, and its wholesale business of £35,744,069 of sales, and £1,000,518 of profits is enough to demonstrate the capacity of plain people to conduct great business affairs.

In the presence of such facts it is impossible to dismiss co-operation as unimportant or ineffective. The history of abortive undertakings in the United States seems to point to unpropitious circumstances or unfaithful administration rather than to inherent defects in the plan; and the student of industrial conditions seems called to inquire, not whether co-operation can succeed, but what the special causes in the United States are which have made it so often fail.

What, then, are the most elemental conditions in industrial co-operation? The first condition is that of independence. The co-operative plan must not be tied up with other and more dubious undertakings, whose failure may involve the wreck of co-operation. In America communism, vegetarianism, pietism, feminism, have all annexed co-operation to their programs, and their abortive colonies have involved in their fall much disrepute for co-operative industry. Co-operation is too admirable a scheme to be made a bait for converts to Utopia.

The second condition is a considerable degree of fixity in residence. One joins a co-operative society, paying an entrance fee in the expectation of later profits. He has to wait for his dividend. The habit of buying at the co-operative store becomes gradually fixed in his family, and devotion to the cause is gradually strengthened by an increasing appreciation of advantage. All this gathering tradition of loyalty is hard to develop among the ordinary conditions of American life. We are for the present a nation of nomads. This fluidity in population, however, is not likely to last. Whenever, therefore, a reasonable fixity of residence has been reached, an opportunity of free organization for mutual help will have arrived.

A third condition to success is desire to save. The plan proposes a bonus on thrift. Distributive stores under co-operation, instead of underselling other traders, often accept market rates and

reserve the earnings for distribution to purchasers. The wholesale societies are themselves the property of the distributive stores, so that the profits filter down through the stores to the individual members. Thus the expectation of dividend becomes the economic basis of loyalty. The co-operator cherishes the faith that a penny saved is a penny earned. The American people are beyond all comparison, and from richest to humblest, the most unthrifty and extravagant in the world. Sooner or later, however, even so light-hearted and unprecedentedly prosperous a people as we will have to learn the ancient lesson of economy. Thrift will eventually turn out to be more lucrative than luck. The chances of gain will diminish, and the rewards of saving will increase. Whenever that time arrives the co-operative scheme will attract fresh attention.

A final condition of success is a supply of what the advocates of the movement call "co-operative men." The scheme depends on fidelity, integrity, and disinterestedness. A completely self-seeking man cannot be a good co-operator. Co-operation presupposes common sense, forbearance, and co-operative spirit, and can be successful only where such qualities exist. Co-operation is, in fact, a form of moral education, an expression of social ethics, a way of trade that might write over its stores: "Bear ye one another's burdens"; "Ye are members one of another."

This condition of co-operation prescribes its own limitations. It is applicable only to the more thoughtful and intelligent of wage-earners. The ignorant, the thriftless, and the short-sighted it excludes. Moral responsibility, a sense of loyalty, a willingness to sacrifice for the cause, are essential to business success. Yet this moral demand is precisely what gives to co-operation its peculiar place in the industrial world.

359. "U. S. Steel" and Labor[16]

BY RAYNAL C. BOLLING

The officers of the United States Steel Corporation and its subsidiary companies are not indifferent or self-satisfied as to conditions among their workmen. They are trying to improve those conditions as fast as it is practicable to do so. They do not maintain that the lot of the steel-worker is easy or ideal; but they do maintain that their workmen are treated as well on the whole as the workmen in any other industry and treated far better than ever before in the steel industry.

[16]Adapted from an article in the *Annals of the American Academy of Political and Social Science,* XLII, 38–46. Copyright (1912).

The United States Steel Corporation has made it possible for every employee, even down to the ordinary laborer, to become an owner of its stock. In its iron mines, a thousand feet underground, I have seen men working with pick and shovel who proved, when questioned, to be stockholders in the company. Over 30,000 of the workmen are thus interested in the business. These employee stockholders derive the following special benefits from the plant: (1) They are induced to save money, often for the first time in their lives. (2) For five years they receive a very high return upon their investments, and thereafter a large return for such small investments. (3) They are induced to feel a direct interest in the business and to remember that their own interests are tied up with those of the company. (4) They are encouraged to remain with the company and to profit by permanent employment.

Before there was any law in this country which required anything of the kind, the United States Steel Corporation established a system of voluntary accident relief absolutely regardless of legal liability. Every man injured and the family of every man killed is taken care of without need of lawsuits or even of any claims against the companies. Last year we were sued in only two-tenths of one per cent of the cases—showing how satisfactory this plan has proved to our workmen.

The United States Steel Corporation has spent six years in the development of a system of preventing accidents, which I confidently believe is not surpassed anywhere in the United States or abroad. The system which has been worked out comprehends all manner of safety devices and other material safeguards, but, above all, it is based upon the development of an earnest, constant and determined effort to prevent work accidents—all the way from the president down to the lowest workman.

In six years the number of serious and fatal accidents among workmen of the United States Steel Corporation has been reduced forty-three per cent, and more than 2,000 men each year are saved from injury or death in work accidents which would have happened to them under old conditions.

At all our mills, mines and plants provision is made for the best surgical and hospital treatment obtainable for employees injured in our work. In the mining regions the arrangements include medical attention for the men and for their families.

By an arrangement under which $8,000,000 is being added to the $4,000,000 originally given by Mr. Andrew Carnegie, there has been provided a permanent fund of $12,000,000, from the income of which all superannuated employees of the United States Steel

Corporation who have remained twenty years in its service are assured support for the rest of their lives. The smallest pension given is $12 a month and the largest $100—thus the lowest paid workman will receive enough to provide for his necessities and the high-salaried employees do not become a drain on the fund.

The most recently organized work for improving conditions among employees of the Steel Corporation is in sanitation and welfare. This work is being organized in the same manner in which the system of accident prevention has been worked out and with the same theory of bringing these matters home to the heads of departments, superintendents and foremen, and above all, to the men themselves.

This work includes sanitary disposal of sewage and fecal matter, provision for pure water in all plants and houses, the protection of food supplies, especially milk and meat, and the installation of wash-rooms, shower-baths and lockers for a change of clothing.

All our companies are donors to hospitals, churches, clubs, libraries and other organizations established by the communities and the workmen. It is the aim of our managers to make their plants a benefit to the communities in many ways additional to the wages paid the workmen.

Few people know how much our plant managers spend in carrying employees through hard times when there is not work enough, in furnishing groceries and coal, in paying rent and insurance to assist sick employees, in giving a little Christmas cheer to those who are in misfortune.

Please do not understand me to say that all of these things are done in all the subsidiary companies or in any of them. Many of these things are done in all of the companies, and all these and other means of making better the conditions of its workmen are on trial and under consideration somewhere in the Steel Corporation, with the hope and the purpose of eventually bringing all the companies and all the plants to the best standards.

The hours of labor in the steel mills of this country grew up with the industry. They were not established by the United States Steel Corporation, and they can only be changed slowly where changes are shown to be practicable and desirable.

The twelve-hour day exists among only twenty-five per cent of the workmen employed by the United States Steel Corporation, although in the blast furnaces and rolling mills, to which the twelve-hour day is largely confined, probably half the workmen have a twelve-hour day, more or less modified by periods of rest. The steel industry adopted the two-turn system long before the United

States Steel Corporation was organized. The same system prevails in Germany, where labor conditions have probably been made the subject of more state supervision than anywhere else in the world. Personally, I am satisfied that the lightening of labor by machinery and the rest periods prevent the twelve-hour day from doing any physical injury to the workmen. Since the Steel Corporation was organized the price of its products has been reduced on the average about ten dollars a ton. Meanwhile, wages have been increased twenty-five per cent. Yet the efficiency of labor has not increased. It would be easy to substitute an eight-hour day for twelve hours if the workman could accept two-thirds his present wages, but the workman, like everyone else, prefers longer hours to lower wages; and there are more applicants for twelve-hour positions than for those where the work is only ten hours, because the former pay better. This is an economic problem which confronts the industry and time is required for its solution.

The question of organization among the workmen in the steel industry is too large, too serious and too difficult a subject to discuss in a small portion of a short address. It is a subject where discussion too often engenders ill feeling and most unfortunate bitterness, where differences of opinion are seldom accepted with patience or tolerance on either side. For myself, I believe we must get rid of lawlessness and of violence and oppression on both sides and wherever they appear. I believe no agreement can be reached until the two parties are both prepared to seek an agreement on the basis of mutual advantages offered and of equal responsibilities assumed.

360. Labor and "U. S. Steel"[17]

BY JOHN A. FITCH

A discussion of the subject "Industrial Combinations and the Wage Earner" with reference to the Steel industry, may well take the form of an answer to the inquiry, "Has the formation of the United States Steel Corporation proven a good thing for labor or the reverse?"

The reasons for choosing the United States Steel Corporation are both logical and obvious, I believe. It is the greatest combination in the industry; it has more money to spend on improvements than any other, and so furnishes the most favorable basis for judg-

[17]Adapted from an article in the *Annals of the American Academy of Political and Social Science,* XLII, 10–19. Copyright (1912).

ment as to the effect of such combinations; and it employs over 200,000 workmen, while its largest competitor employs less than 20,000.

It may be well first to consider briefly who the steel workers are. Not over twenty per cent of the employees in blast furnaces and rolling mills can be regarded as highly skilled. Twenty to twenty-five per cent more may be termed semi-skilled, and the remaining fifty-five to sixty per cent are unskilled laborers. Roughly, the gradations in skill correspond to gradations in nationality. You will not find an Anglo-Saxon among the unskilled; you will hardly find one in ten who is American born. Sixty per cent of them are unnaturalized and a third are unable to speak the English language.

The steel industry has had an increasing demand for the raw South-European immigrants, and there is reason to believe that the demand will be larger as time goes on.

Let us turn next to labor conditions. Employees in sheet and tin mills work in three shifts of eight hours each. Yard laborers, shop men, and tube-mill workers have a ten-hour day. In the actual manufacturing processes, however, and in the rolling of rails, beams, and plates, the regular working day is twelve hours. Fully fifty per cent of the men in the industry have a twelve-hour day. The employees in several departments work seven days a week. The situation is aggravated by the night crew of one week becoming the day crew during the next week. The change in shifts forces a crew to remain on duty 24 hours once in two weeks.

It is difficult to make a statement regarding wages, because the wage schedule of a steel mill is a very complex affair. In 1907 I was given wage figures from the pay roll of a Steel Corporation mill in the Pittsburgh district. The figures included all of the men in five departments of a steel mill, including every necessary step in the process of turning pig iron into a finished steel product. There were 2,304 men included, and they were grouped according to earnings as follows: 125, or approximately five per cent, received over $5 a day; 524, or twenty-three per cent, received between $2.50 and $5.00, and 1,655, or seventy-two per cent, received $2.50 a day or less.

In May, 1910, a general wage increase was announced by the Steel Corporation, which was described as averaging six per cent. This increase, so far as common labor is concerned, amounted to one cent an hour. The rate in 1908 was 16 1-2 cents an hour in the Pittsburgh district, and it is now 17 1-2 cents. This is the highest rate paid by the Steel Corporation. In its Chicago mills the rate is 17 cents, and in its Birmingham, Alabama, mills it is 13 to 14 cents.

Professor Chapin, in his study made for the Russell Sage Foundation, decided that a decent standard of living could not be maintained in New York City by a family of five persons on an annual income of less than $800, and that there is no assurance that it can be maintained on an income below $900. No unskilled steel worker in America can earn even $800 a year on the rate that is being paid today.

I now come to what I shall call the ameliorative efforts of the Steel Corporation—the things regarded by the Corporation as done on the credit side of the account.

First in this list I shall place the campaign for safety. In the past the steel industry has had an unenviable record of accidents to workmen. However, much has been done in the installation of safety devices and the inculcation of habits of caution. The hospital service is generally good. The pension fund of $4,000,000 left by Andrew Carnegie and a fund of the American Steel and Wire Company, one of the constituents of the corporation, have been consolidated and the capital increased to $12,000,000, the income to be used to pension superannuated or disabled employees of the corporation.

The steel industry was never thoroughly unionized, although prior to the formation of the Steel Corporation there was a considerable amount of unionism in the Pittsburgh district. The Carnegie Company had eliminated unionism from its plants in 1892, and of the large plants rolling rails and structural material, the Illinois Steel Company was the only one entering the corporation with union labor. Soon afterward, however, in 1901, the plants of this company were freed from unionism through a strike. During this strike the executive committee of the corporation adopted a resolution in opposition to organized labor and declared that it would not permit its extension. After this it apparently adopted a policy looking to the extermination of organized labor. As a result union labor has now been eliminated from all its properties, with the possible exception of its railroads. The corporation is absolutely opposed to collective bargaining and has adopted a number of plans calculated to prevent an outbreak of organization on the part of its employees.

The pension plan, although a desirable thing in itself, has the effect of keeping men silent who might wish to protest against existing conditions. In order to enjoy its benefits, the men must have served twenty years continuously in the employ of the corporation or of one of its subsidiaries. This effectively prevents any stoppage of work as a protest against anything considered unjust by the workmen, if they would keep their record such as to enable them

to draw the pension in old age. The pension rules also specifically set forth the obvious truth that the Corporation does not give up its right to discharge its employees. There is nothing in it to protect a man excepting his subservience to his superior officers, and the nearer he approaches toward twenty years of continuous service, the greater his subservience may conceivably be—for he might be discharged at the end of nineteen years and eleven months and his right to the pension would be forfeited.

The so-called profit-sharing plan also has features designed to keep the employee from standing out vigorously in defense of what he may consider his rights. The rules plainly state that the yearly $5 bonus for each share of stock, and the additional bonus at the end of each five-year period, are to go, not as a matter of right to each employee who holds stock, but only to those whom the executive officials may consider loyal.

Under these two systems, then, a man will utterly fail of securing the benefits offered if he is offensive to the administrative officials. He may take his choice between exercising his right to register his objections to working conditions or to the labor contract and run the risk of losing his right to the benefits offered, or he may withhold his protests, if he has any, and establish his reputation for loyalty by keeping silent. The effect of this attitude of the Corporation tends, in a great many instances, to outweigh anything that it may do in the direction of providing better labor conditions.

Unionism is a very faulty and often a dangerous form of organization. But we have so far worked out no better method of establishing justice in industrial matters than leaving it to the bargaining strength of the two parties to the contract.

C. THE SOCIALIST'S INDICTMENT OF CAPITALISM

361. Marx's Theory of the Development of Capitalism[18]

BY WERNER SOMBART

Marx held a particular view concerning the period of history in which we are now living, that is to say, concerning the age of Capitalism, and this view tried to show the justification for the socialist movement. He showed it in two ways. In the first place, he attempted to prove that the present capitalist system, by virtue of its

[18]Adapted from *Socialism and the Social Movement,* 6th ed., 71–86. Published by E. P. Dutton & Co. (1908).

inherent qualities, contained within itself the germs of its own decay; and, in the second place, that as the capitalist system decays it creates the necessary conditions for the birth of socialist society. These ideas may be thus expressed. The capitalist system, in its onward flow, develops phenomena which prevent the smooth working of the great producing machine. On the one hand we have increasing socialization of production—the tendency for production to be more and more on a large scale; for big businesses to swallow up smaller ones—and the increasing intensity in production. On the other hand, the direction of production and its distribution are still in private hands—in those of the capitalist undertaker.

These tendencies come into more serious opposition as time goes on, and the result is that commercial crises, that disease to which capitalist organization of industry is so liable, appear periodically, and with more and more disastrous results. "Not only are many of the commodities already produced wholly destroyed in these crises, but a good many of the instruments of production are subject to a similar fate. In these crises a social epidemic breaks out such as in all earlier ages would have been accounted madness—the epidemic of overproduction. Society finds itself for the time being in a state of barbarism; it is as though a famine or a general war of extermination had cut off all supplies of the necessaries of life. Industry and commerce seem to be destroyed."

The inner conflict in the capitalist organization of society is reflected in the growing opposition between the two classes on which that organization rests—between the bourgeoisie and the proletariat.

The bourgeois class, owing to the "centralization of capital," is represented by a constantly decreasing number of capitalists, and the proletariat by a constantly increasing mass of impoverished individuals who sink deeper and deeper in misery. "The modern worker, instead of rising with the advance of industry, sinks deeper and deeper because of the conditions which his own class imposes upon him. The worker becomes a pauper, and pauperism develops even more quickly than population or wealth. This makes it abundantly clear that the bourgeoisie is incapable of remaining the ruling class in society, and of forcing society to accept the conditions of its existence as a general law regulating the existence of society as a whole. The bourgeoisie is incapable of bearing rule because it is unable to ensure for its slaves a bare existence, because it is forced to place them in a position where, instead of maintaining society, society must maintain them." It is the misery here mentioned that produces rebellion; the proletariat rises against the ruling class.

And it is able to do this because it has been "trained, united and organized" by "the very mechanism of the process of capitalist production." "The hour of capitalist property has struck. Those who have expropriated others are now themselves expropriated." "Society will openly and directly take possession of the means of production" and the difficulties inherent in the capitalistic system will be removed. To take hold of power in this way, and so to introduce a new economic organization, will be possible because all the necessary conditions will have been created by the capitalist organization—"constantly increasing co-operation in labour, application of technical knowledge, the derivation of the maximum produce from the soil, the transformation of the instruments of labour into such as may be used in common by many workers, the inclusion of all peoples in the net of the world market."

This broad theory of evolution comprises a number of single theories.

(1) The Theory of Concentration was adopted by Marx from Louis Blanc. Marx enlarged and illustrated it in a most brilliant fashion. The theory lays it down that under the pressure of the competition inherent in the capitalist system, capitalist undertaking completely drives out the methods of production which existed in pre-capitalistic times; it swallows up the small, independent producers; and then "one capitalist destroys many," or "many capitalists are expropriated by a few," *i. e.*, undertakings on a large scale prevail more and more, and economic development tends to bring about a state of things where everything is controlled from one centre.

(2) The Theory of Socialization is closely connected with that of concentration. It asserts that capitalist development will eventually produce all the conditions necessary for bringing about a socialist, or communist, order of economic life. In other words, the theory holds that the elements of the coming economic system are maturing within the frame-work of Capitalism. This theory, which is clearly of extreme importance for the foundation of the realistic standpoint, is of all the teachings of Marx and Engels most characteristically theirs. Separating its component parts, it may be described as follows:

By utilizing improved processes in production in the capitalist organization of industry, it is possible to increase the productivity of the labour of society, and thus develop the productive powers of society. In this way, "by a wise distribution of work, there is a possibility—for the first time in the history of mankind—not only of producing sufficient for the necessary subsistence of all the members of society and for setting aside a reserve, but also of giving

each one sufficient leisure, so that what is of value in culture, science, art, social intercourse and so forth, may continue, and be turned from being a monopoly of the ruling class into the common possession of the whole of society. This is the important point. For as soon as the productive power of human labour has developed thus far, there is no longer any reason for the existence of a ruling class.

(3) The Theory of Accumulation lays it down that the number of great capitalists is on the decrease.

(4) The Theory of Pauperization asserts that the intellectual and material condition of the proletariat under the capitalist system, instead of improving, grows constantly worse and worse.

(5) The Theory of Self-Destruction asserts that Capitalism is digging its own grave. The occurrence of commercial crises, coming as they do with constantly increasing force, proves conclusively the failure of the prevailing economic system to maintain its predominance. The crises are the symptoms of the bankruptcy of the existing social order; and one day they will become so extensive that recovery will become quite impossible.

362. The Economic Failure of Capitalism[19]

BY J. RAMSAY MACDONALD

Commercialism is a phase in the evolution of industrial organisation, and is not its final form. It arose when nations were sufficiently established to make national and international markets possible, and it created classes and interests which separated themselves from the rest of the community and which proceeded to buttress themselves behind economic monopolies, social privileges, political power. The new industrial régime supplanted feudalism when the historical work of feudalism was done and it had ceased to be useful, and proceeded to build up a method of wealth production and distribution regulated by nothing but the desire for individual success and private gain. The new power lost sight of social responsibilities and social coherence. The interests of the individual capitalist, of the class of capitalists, of the property owners, were put first, and those of the community as a whole were subordinated. It was hoped, that by the individual capitalist pursuing his own interest national well-being would be served. The error soon reaped its harvest of misery, when women and children were dragged into the factories late in the eighteenth and early in the nineteenth centuries, when people were gathered into foul industrial towns, and when only

[19] *The Socialist Movement*, 94–99. Copyright by Henry Holt & Co. (1911).

human endurance limited the length of the working day. So separate had become the interests of the nation from those of the propertied classes that the latter found profit from the degradation and deterioration of the population. It mattered not to the cotton owner of Lancashire a hundred years ago what became of the children who were working in his factories, or later on, what became of the women who took their places. When one "hand" died another "hand" was ready to step into his place, and whether his life was long or short, sad or merry, the machines which he tended spun out their enormous profits, and the owner saw no reason to believe that the day of his prosperity was short.

The system certainly solved the problem of production. Under its whips and in search of its prizes, mechanical invention proceeded apace, labour was organised and its efficiency multiplied ten, twenty, an hundred fold. Statistics in proof of this live with the wonder that is in them. That twenty men in Lancashire to-day can make as much cotton as the whole of the old cotton-producing Lancashire put together; that 1,000 shoe operatives in Leicester can supply a quarter of a million people with four pairs of boots a year; that 120 men in a mill can grind enough flour to keep 200,000 people's wants fully supplied, seem to come from the pages of romance rather than from the sober history of industry. Commercialism has written those pages, and they are its permanent contribution to human well-being.

As time went on, however, it was seen that this wonderful system of production was quite unable to devise any mechanism of distribution which could relate rewards to deserts. Distribution was left to the stress and uncertainty of competition and the struggle of economic advantages. The law of the survival of the fittest was allowed to have absolute sway, under circumstances which deprived it of moral value. The result was that national wealth was heaped up at one end over a comparatively small number of people and lay thinned out at the other end over great masses of the population. At one end people had too much and could not spend it profitably, at the other end they had too little and never gained that mastery of things which is preliminary to well-ordered life. Moreover, even many of those who possessed held their property on such precarious tenure that possession gave them little security and peace of mind. Prosperity was intermittent both for capital and labour.

Then conscious effort to rectify the chaos began to show itself. The national will protected the national interests through factory and labour legislation, and at the same time the chaos within the

system was being modified by the life of the system itself. Competition worked itself out in certain directions, and coöperation in the form of trusts came to take its place, as nature turns to hide up the traces of war in a country that has been fought over. This new organization is more economical and may steady to some extent the demand for labour; but it means that economic power is being placed in the hands of a few. That is too dangerous in the eyes of the Socialist. Its operation is too uncertain. From his very nature the monopolist is an exploiter. He grasps the sceptre of state, as well as the sceptre of industry. He sits in Parliament as well as in the counting-house. He becomes a powerful citizen as well as a masterful captain of industry. He raises in a most acute form the problem of how the community can protect itself against interests being created round its exploitation and enslavement. Competition solves its own problems and leaves those of monopoly in their place.

Surveying the same field with an eye on the moral fruits which it has borne, the Socialist once more discovers weeds in plenty. The familiar methods of adulteration and of all forms of sharp dealing, both with work-people and with customers, pass before his eyes in disquieting masses. Honesty on this field is not the best policy. Materialist motives predominate. Birth and honour bow to wealth. Wealth can do anything in "good" society to-day—even to the purchase of wives as in a slave market. A person may be vulgar, may be uncultured, may be coarse and altogether unpleasing in mind and manner but, if he has money, the doors of honour are thrown open to him, the places of honour are reserved for his occupation. The struggle for life carried on under the conditions of commercialism means the survival of sharp wits and acquisitive qualities. The pushful energy which brings ledger successes survives as the "fittest" under commercialism. Capitalism has created a rough and illworking mechanism of industry and a low standard of value based upon nothing but industrial considerations, and it has done its best to hand over both public and private values to be measured by this standard and to be produced by this mechanism.

But the controlling influences which have been brought to bear upon it—both those of a political character from without and those of an industrial character from within—are the foreshadowings of a new system of organization. Commercialism lays its own cuckoo egg in its nest. Every epoch produces the thought and the ideals which end itself. Like a dissolving view on a screen, commercialism fades away and the image of Socialism comes out in clearer outline.

D. THE CASE FOR SOCIALISM

363. The Distinction between Socialism and Communism[20]

BY M. TUGAN-BARANOWSKY

The distinction between Socialism and Communism is commonly thought to lie in that Socialism demands only that the means of production be transferred to the community, admitting private property in objects of use, whilst Communism claims complete abolishment of private property. But this is not quite correct. In the first place it is not possible to draw exact boundaries between means of production and objects of use. Nor is it correct to maintain that Socialism demands the socialization of all implements of work, or means of production. Most socialists assign to every family, a separate house, involving individual possession of means of production, for instance, utensils, tableware and books not read for a pastime. Even under Socialism certain instruments of production retain the quality of private property.

But there are a great many objects the private possessions of which collectivist society can by no means grant. Many things serving for immediate use and enjoyment, museums, gardens, etc., already form objects of public property. Under a socialistic arrangement this class will be considerably expanded. In such a social state there will be three classes of objects of use: one belonging to the community as such, to the use of which all shall have free access; one likewise social property, the individual use of which shall be granted for a certain compensation; and one shall consist of objects possessed by individuals as private property.

But even communism does not include the complete disappearance of property. The organization of social production, to whatever extent it may develop, will find on its way many an object of use, which owing to its very nature must be left in individual possession, for instance clothing. However broadly the principle of Communism may be carried out, it will never succeed in dressing two individuals in one coat at one and the same time, and every coat must therefore practically be the property of him who wears it.

The principle distinction between Socialism and Communism cannot, therefore, lie in the criterion referred to. In view of this fact many are inclined to identify the two. It is, however, not impossible to mark out the point of difference between these systems. Amongst collectivist systems it is easy to discern two fundamental

[20]Adapted from *Modern Socialism in Its Historical Development,* 14–18 (1905).

types. According to one the individual income is adjusted by determining the sum total the individual may dispose of to satisfy his wants. According to the other the very notion of income as a determined value is rejected, the immediate wants only being regulated or recognized as absolutely free. Under the order of the first type the distribution of products proceeds by means of a money system, were it but an ideal one; every individual spends his income; everything must have its price. In other words, money as a standard of value and purchasing power represents an indispensable organ of distribution; whereas in the organization of the second type, in which illimited freedom of consumption is admitted, and not the income, but the use it is put to is being controlled, money as an instrument of distribution is not at all necessary. Social economy of the first type supposes the use of money, while that of the second type has no use for money at all.

364. The Central Aim of Socialism[21]

BY THOMAS KIRKUP

The central aim of socialism is to terminate the divorce of the workers from the natural sources of subsistence and of culture. The socialist theory is based on the historical assertion that the course of social evolution for centuries has gradually been to exclude the producing classes from the possession of land and capital, and to establish a new subjection, the subjection of workers who have nothing to depend on but precarious wage-labour. Socialists maintain that the present system leads inevitably to social and economic anarchy, to the degradation of the working man and his family, to the growth of vice and idleness among the wealthy classes and their dependants, to bad and inartistic workmanship, to insecurity, waste, and starvation; and that it is tending more and more to separate society into two classes, wealthy millionaires confronted with an enormous mass of proletarians, the issue out of which must either be socialism or social ruin. To avoid all these evils and to secure a more equitable distribution of the means and appliances of happiness, socialists propose that land and capital, which are the requisites of labour and the sources of all wealth and culture, should be placed under social ownership and control.

In thus maintaining that society should assume the management of industry and secure an equitable distribution of its fruits, socialists are agreed; but on the most important points of details they differ very greatly. They differ as to the form society will take

[21]Adapted from *A History of Socialism*, 8–12 (1900).

in carrying out the socialist programme, as to the relation of local bodies to the central government, and whether there is to be any central government, or any government at all in the ordinary sense of the word, as to the influence of the national idea in the society of the future, etc. They differ also as to what should be regarded as an "equitable" system of distribution.

Still, it should be insisted that the basis of socialism is economic, involving a fundamental change in the relation of labour to land and capital—a change which will largely affect production, and will entirely revolutionize the existing system of distribution. But, while its basis is economic, socialism implies and carries with it a change in the political, ethical, technical and artistic arrangements and institutions of society, which would constitute a revolution greater than has ever taken place in human history, greater than the transition from the ancient to the mediaeval world, or from the latter to the existing order of society.

In the first place, such a change generally assumes as its political complement the most thoroughly democratic organization of society. Socialism, in fact, claims to be the economic complement of democracy, maintaining that without a fundamental economic change political privilege has neither meaning nor value.

In the second place, socialism naturally goes with an unselfish or altruistic system of ethics. The most characteristic feature of the old societies was the exploitation of the weak by the strong under the systems of slavery, serfdom, and wage-labour. Under the socialistic regime it is the privilege and duty of the strong and talented to use their superior force and richer endowments in the service of their fellow-men without distinction of class, or nation, or creed. In the third place, socialists maintain that, under their system and no other, can the highest excellence and beauty be realized in industrial production and in art; whereas under the present system beauty and thoroughness are alike sacrificed to cheapness, which is a necessity of successful competition.

Lastly, the socialists refuse to admit that individual happiness or freedom or character would be sacrificed under the social arrangements they propose. They believe that under the present system a free and harmonious development of individual capacity and happiness is possible only for the privileged minority, and that socialism alone can open up a fair opportunity for all. They believe, in short, that there is no opposition whatever between socialism and individuality rightly understood, that these two are complements the one of the other, that in socialism alone may every individual have hope of free development and a full realization of himself.

365. Property and Industry under Socialism[22]

BY JOHN SPARGO

Another phase of our discussion concerns the industrial organization of the Socialist State, and the place in it of private industrial enterprise. Socialism does not involve the absolute monopolization of production and distribution, and the total suppression of private initiative and enterprise in these spheres. The economic organization of the Socialist State will undoubtedly include production and distribution by individuals and voluntary co-operative groups, as well as collective production and distribution under the auspices and control of the State itself.

In all our thought upon this question we must bear in mind that the two principal economic arguments for socialization are: First, the elimination of economic parasitism, the exploitation of the wealth producers by a class of non-producers, and, second, the attainment of greater efficiency through the elimination of the wastefulness inseparable from capitalist production, especially in its competitive stages.

The first of these reasons constitutes the prime motive of the Socialist movement. The second is the *raison d'être* of the development of monopoly. Every thoughtful Socialist recognizes that capitalist production involves an enormous amount of waste, and that incalculable gains would result from the socialization of industry.

The greater part of the production and distribution of our present economic system is so organized that the exploitation of the workers engaged in it is inevitable.

It is a fundamental condition of Socialism that all such processes and functions be socialized. In other words, it is a *sine qua non* of Socialism that they be so organized as to eliminate profit-making by investors. This does not mean that they must all be taken over by the supreme political organization which we call the State. Nor does it mean that they must all be socialized at once. A few advocates of Socialism, more zealous than intelligent, seem to believe that there will be a grand transformation day upon which all the functions of capitalism will be socialized, but that idea is not held by thoughtful Socialists.

Great organizations like the Steel Trust represent the progress already made in the direction of Socialism through one channel. Measures for the government regulation of monopolies now being advocated by conservative non-Socialists indicate an increasing readiness to make progress in the same direction through another

[22]Adapted from *Applied Socialism*, 116–129. Copyright by B. W. Huebsch (1912).

channel, the channel of political organization. The process of socialization is essentially an evolutionary one.

The incentive which operates to bring about the socialization of industries conducted for profit obtained from the exploitation of the workers, obviously does not exist in the case of petty, individualistic industries which do not depend upon such exploitation. The market gardener who cultivates his own land and sells his produce without exploiting the labor of others, and the individual craftsman who does all his own work, likewise without exploiting the labor of others, illustrate very clearly the distinctive character of enterprises which are not characterized by class exploitation. There is a much larger number of these enterprises, both productive and distributive, than is generally recognized. It is exceedingly probable that a large number of them will continue to exist, as individual enterprises, in the Socialist regime.

It seems probable, then, that in the Socialist State three forms of economic enterprise will co-exist, namely (1) production and distribution on a large scale under the auspices of the government—national, state or municipal; (2) production and distribution by co-operative associations; (3) production and distribution by private individuals. To regulate properly the relation of these three divisions will be the supreme task of the democratic statesmanship of the future.

There are some economic activities which from their very nature require a national organization for their most efficient direction. This is true of railways, telegraphs, postal and express services among distributive agencies, and of mining, oil production, and steel manufacture among the productive functions. There are other economic activities which can be most efficiently directed by the smaller unit, the State or Province, and yet others which can be most efficiently conducted by the still smaller political unit, the city or commune.

It is impossible to make a rigid classification of the economic functions and decide to which political unit each will be entrusted. Moreover, were such a classification possible it would not be of much value. The Socialist State will inherit the economic organization of the capitalist system, and will modify it in the light of its experience and according to the needs of its economic development. The economic functions entrusted at first to municipalities may later be transferred to the larger units, the States and provinces, the citizens choosing a greater degree of centralization in the interests of efficiency. On the other hand, a certain amount of decentralization may take place.

The State, using the term in its most comprehensive sense to cover the whole political organization of society, thus assumes the functions now performed by the capitalist class in the employment, direction and superintendence of labor. Naturally, the relations of the State to the individual worker will differ materially from those which now exist between employer and employe. The position of the worker will be somewhat analogous to that of the employe who is also a shareholder in the concern for which he works. Misunderstandings and conflicts between them are, therefore, not only possible but highly probable—perhaps inevitable.

Inseparable from such a system would be the danger of conflict between the decisions of the workers engaged in important branches of the industrial organization and the interests of the people as a whole.

It is very evident therefore, that some way must be found to base the industrial organization of the Socialist State upon the dual basis of the interests of the whole citizenry on the one hand, and the special interests of the workers as such upon the other hand. One Socialist writer has gravely proposed the establishment of an elective "industrial parliament of two chambers, in one of which representation will be according to numbers, while in the other every industry will be represented irrespective of size."

One weakness is common to all such ingenious devices. They are all essentially Utopian. Based upon abstract principles, they fail to take into account the important fact that society is an organism subject to the laws of evolution. Social institutions are never the result of the deliberate adoption of clever inventions. It is easy enough and harmless enough for the believer in a certain form of social organization to sit down and ask himself: "What institutions and what methods will best serve that form of social organization in which I believe?" but we must not be disappointed if quite other institutions and methods are developed.

Socialism is the child of capitalism. If the Socialist State is ever realized at all it will be a development of the capitalist State, not a new creation. Many of us believe that the transition from capitalism will be a tranquil process, stretching over a period of many years; that the "Social Revolution" of which we hear so much, instead of being a terrible upheaval attended with an enormous amount of violence and suffering, which even the stoutest hearts must anticipate with anxiety, is a long-drawn process of social effort and experiment. The Social Revolution is not a sanguinary episode which must attend the birth of the new social order. It is a long period of effort, experiment and adjustment, and is now taking place.

The acceptance of this evolutionary view will save us from wasting time and energy in devising social institutions and methods to conform with abstract principles. Instead, we shall seek the beginnings of such institutions and methods as the new epoch will require within the present order, together with the beginning of the new epoch itself.

E. SOCIALIST ARGUMENTS FOR THE MASSES

366. Capitalism—A Vampire System[23]

BY GEORGE E. LITTLEFIELD

1. Under capitalism, labor of brain and hand—human life-power—is a mere commodity. The world's workers are wage-slaves, compelled to sell time portions of themselves in the auction marts of competition to master bidders, lowering their price in the rivalry for jobs—for the opportunity to live—until it is just enough to equal the bare cost of living and reproduction—the iron law of wages.

2. Human labor, applied to natural resources, creates all value.

3. The unpaid portion of labor is surplus value or capital, with which the exploiting capitalists become masters of land, buildings, machinery, and raw material—all the means of production and distribution that labor depends upon for existence—therefore masters also of the wage-slaves.

4. The withholding of this surplus value from labor prevents the exploited workers from buying or consuming but a fraction of their full product—hence periodic over-production and consequent "hard times," ever becoming more severe and chronic, until finally the whole capitalist system must smother in its own "prosperity."

5. Capitalism is a vampire system. While it absorbs the labor and life of the competitive wage-slaves, the competing capitalist masters, preying one upon another, destroy each other until thus we have but a few monster vampires sucking the last dregs of vitality from a vastly increased proletariat, and finally comes the crisis—the sin of wageism is death—the collapse of the capitalist system. Labor unions and fake legislation for the strangling little capitalists (like the impotent railroad-control law) may palliate and prolong the present agony for a brief time, but the end is fatally doomed as is the diseased person who will not cut out his life-absorbing cancer. The huge modern plutocratic parasites, inflated with interest, rent, and profits, must finally expire with the death of what they feed

[23]From *Capitalism to Socialism,* Flashlight Number 7 (1905).

upon—wageism. So the vampire patricians of ancient Rome sapped the plebeian and slave basis of their economic system and the Empire fell in 476.

6. No system of civilization can advance or live when a feasting, reveling class drinks from the toilers' veins while riding on their backs. The knell of its own death is now being rung by capitalism which hypocritizes religion; perverts morality; makes the law unjust; prostitutes education; promotes war; corrupts politics; practices robbery, swindling, and gambling as a business; betrays friendship; sends love out street-walking and makes marriage mercenary; calls attic lodgings, slum cellars, corporation shacks, and hobo hovels "homes"; offers little children to the moloch of commercialism, and in the mad scramble for its dope incentive—dollars—materializes the rich, vulgarizes the well-to-do, and brutalizes the poor. Such is the result of the economic determinism of capitalism.

367. "My Papa Is a Socialist"[24]

BY HARVEY P. MOYER

My papa is a Socialist, my mamma, too, and I,
And if you'll wait a minute now, I'll tell the reason why;
I'm sure that when you understand, you certainly will see,
You'd better all be Socialists, and vote with pa and me.

You see this earth is long and wide, good things above, below,
And there are lots of people, too, who want to make things go;
Besides, we're all just quite alike, need food and clothes and rest,
And if we all were Socialists, we all would share earth's best.

But now John D. owns all the oil, most banks, and railroads, too,
And then a few own all the land, so what can poor folks do
But tramp and starve and beg for jobs, and work and work and work?
And all the wealth we make, but scraps, we give the wealthy shirk.

Now isn't every papa, most, the very biggest goose,
To give away most all he makes to men who don't produce?
So that a few rich families may all be living fine,
While all we weary working folks must suffer, want, and pine.

[24]From *Songs of Socialism*, p. 45. Copyright by the author. Published by the Co-operative Printing Co. (1906).

And then they do such foolish things, I often wonder why
They "strike" and lose their jobs, and let us freeze and starve and cry;
When, if all joined the Socialists, in four years more or five
We'd all be wealthy partners in the world's great working hive.

For if they'd stop to think, they'd see how easy 'twas to make,
Together, all we'd want to have, and what we'd make, we'd take;
So that the children, all alike, our papas, mammas, too,
Would all enjoy earth's happiness, as Socialists want all to.

So papa is a Socialist, mamma, we children, too;
We want to make all children rich and happy, too, don't you?
Good food and homes, nice shoes and clothes, we children want, don't you?
So all of us are Socialists; please, won't you be one too?

368. The Capitalist's Ten Commandments[25]

BY W. WILLIS HARRIS

I. I am Capital, thy Master, that brought thee out of the Land of Liberty into a State of Slavery. Thou shalt not become thine own Master nor have any other Master but me.

II. Thou shalt not create any wealth, nor any likeness of any wealth that is in Heaven above, or that is in Earth beneath, or that is in the waters under the Earth, unless I can make a profit out of it. Thou shalt bow thyself down under my oppression and serve me, for I, Capital, am a jealous Master and visit the poverty of the fathers upon the children unto the third and fourth generations of those that create wealth for me, and show mercy unto the thousands of sycophants that love me and help me to share the spoils of Labor.

III. Thou shalt not produce wealth for thyself, for I, Capital, will not hold him guiltless that attempts to do so in vain.

IV. Keep the Labor Days, and sanctify them; as I, Capital have commanded thee, lest I throw thee out of employment. Four-and-a-half days thou shalt work for me, and one-and-a-half for thyself. But the seventh day is a rest day for Labor to recoup his strength. In it thou shalt not do any work, thou, nor thy son, nor thy daughter, nor thy wife, unless they be menial servants or minister to my comforts. And remember that thou art my slave, therefore do not

[25]Adapted from *Progressive Thought*, II, No. 5, pp. 13–14 (1898).

attempt to enjoy thyself lest thou over-exert thyself and be unable to produce a profit for me next week.

V. Honor Landlordism and Usury, my co-partners, as I, Capital, have commanded thee, that thy days may be short in the Land in which thou art born.

VI. Thou shalt commit murder for my sake only.

VII. Thou shalt give thy daughters in prostitution and thy wife in adultery to me.

VIII. Thou shalt not steal, that being the right divine of Capital.

IX. Thou shalt bear false witness against thy neighbor—if he be a Socialist.

X. Thou shalt not desire the full products of thy labor, neither shalt thou covet the Land of thy birth, nor the stored-up wealth of past generations, nor the idleness, luxury, and privileges of the wealthy, nor anything that is in possession of the capitalist.

369. A Confession of Faith[26]

I believe in Capital, the ruler of body and mind.

I believe in Profit, His Right-hand Bower, and in Credit, His Left-hand Bower, both of which proceed from and are one with Him.

I believe in Gold and Silver, which melted in the crucible, cut up into bullion, and stamped in the mint, make their appearance in the world as coin, but, after having rolled over the earth, and being found too heavy, descends into the vaults of the Banks, and re-ascends in the shape of Paper Money.

I believe in Dividends, in 5 per cents, 4 per cents and 3 per cents, and also in smaller per cents, that are shaved from notes.

I believe in National Debts, which secure Capital against the risks of trade, industry and the fluctuations of the money market.

I believe in Private Property, the fruit of the labor of others; and I also believe in its existence from and for all time.

I believe in the necessity of Misery—the furnisher of wage-slaves, and the mother of surplus labor.

I believe in the eternity of the Wage System, which setteth the workingman free from all the cares of holding property.

I believe in the extension of the hours of work, and in the Reduction of wages; and I also believe in the adulteration of goods.

I believe in the holy dogma: "Buy Cheap, Sell Dear," and thereby in the fundamental principles of our sacrosanct Church, as revealed by professional Political Economy. Amen!

[26]Adapted from *Progressive Thought,* II, No. 5, p. 14 (1898).

F. SOCIALIST PROGRAMS

370. The National Platform of the Socialist Party[27]

The representatives of the Socialist Party in National Convention at Indianapolis declare that the capitalist system has outgrown its historical function, and has become utterly incapable of meeting the problems now confronting society. We denounce this outgrown system as incompetent and corrupt and the source of unspeakable misery and suffering to the whole working class.

Under this system the industrial equipment of the nation has passed into the absolute control of a plutocracy which exacts an annual tribute of millions of dollars from the producers. Unafraid of any organized resistance, it stretches out its greedy hands over the still undeveloped resources of the nation—the land, the mines, the forests and the water-powers of every State in the Union.

In spite of the multiplication of labor-saving machines and improved methods in industry which cheapen the cost of production, the share of the producers grows ever less, and the prices of all the necessities of life steadily increase. The boasted prosperity of this nation is for the owning class alone. To the rest it means only greater hardship and misery. The high cost of living is felt in every home. Millions of wage-workers have seen the purchasing power of their wages decrease until life has become a desperate battle for mere existence.

Multitudes of unemployed walk the streets of our cities or trudge from State to State awaiting the will of the masters to move the wheels of industry.

The farmers in every State are plundered by the increasing prices exacted for tools and machinery and by extortionate rents, freight rates, and storage charges.

Capitalist concentration is mercilessly crushing the class of small business men and driving its members into the ranks of propertiless wage-workers. The overwhelming majority of the people of America are being forced under a yoke of bondage by this soulless industrial despotism.

It is this capitalist system that is responsible for the increasing burden of armaments, the poverty, slums, child labor, most of the insanity, crime, and prostitution, and much of the disease that afflicts mankind.

Under this system the working class is exposed to poisonous conditions, to frightful and needless perils to life and limb, is walled around with court decisions, injunctions and unjust laws, and is

[27]Adopted at Indianapolis, May 16, 1912.

preyed upon incessantly for the benefit of the controlling oligarchy of wealth. Under it also, the children of the working class are doomed to ignorance, drudging toil and darkened lives.

In the face of these evils, so manifest that all thoughtful observers are appalled at them, the legislative representatives of the Republican, Democratic, and all reform parties remain the faithful servants of the oppressors. Measures designed to secure to the wage earners of this nation as humane and just treatment as is already enjoyed by the wage-earners of all other civilized nations have been smothered in committee without debate, and laws ostensibly designed to bring relief to the farmers and general consumers are juggled and transformed into instruments for the exaction of further tribute. The growing unrest under oppression has driven these two old parties to the enactment of a variety of regulative measures, none of which has limited in any appreciable degree the power of the plutocracy, and some of which have been perverted into means for increasing that power. Anti-trust laws, railroad restrictions and regulations, with the prosecutions, indictments and investigations based upon such legislation, have proved to be utterly futile and ridiculous. Nor has this plutocracy been seriously restrained or even threatened by any Republican or Democratic executive. It has continued to grow in power and insolence alike under the administrations of Cleveland, McKinley, Roosevelt and Taft.

In addition to this legislative juggling and this executive connivance, the courts of America have sanctioned and strengthened the hold of this plutocracy as the Dred Scott and other decisions strengthened the slave power before the Civil War.

We declare, therefore, that the longer sufferance of these conditions is impossible, and we purpose to end them all. We declare them to be the product of the present system in which industry is carried on for private greed, instead of for the welfare of society. We declare, furthermore, that for these evils there will be and can be no remedy and no substantial relief except through Socialism, under which industry will be carried on for the common good and every worker receive the full social value of the wealth he creates.

Society is divided into warring groups and classes, based upon material interest. Fundamentally, this struggle is a conflict between the two main classes, one of which, the capitalist class, owns the means of production, and the other, the working class, must use these means of production on terms dictated by the owners.

The capitalist class, though few in numbers, absolutely controls the Government—legislative, executive and judicial. This class owns the machinery of gathering and disseminating news through

its organized press. It subsidizes seats of learning—the colleges and schools—and even religious and moral agencies. It has also the added prestige which established customs give to any order of society, right or wrong.

The working class, which includes all those who are forced to work for a living, whether by hand or by brain, in shop, mine or on the soil, vastly outnumbers the capitalist class. Lacking effective organization and class solidarity, this class is unable to enforce its will. Given such class solidarity and effective organization, the workers will have the power to make all laws and control all industry in their own interest.

All political parties are the expression of economic class interests. All other parties than the Socialist Party represent one or another group of the ruling capitalist class. Their political conflicts reflect merely superficial rivalries between competing capitalist groups. However they result, these conflicts have no issue of real value to the workers. Whether the Democrats or Republicans win politically, it is the capitalist class that is victorious economically.

The Socialist Party is the political expression of the economic interests of the workers. Its defeats have been their defeats, and its victories their victories. It is a party founded on the science and laws of social development. It proposes that, since all social necessities today are socially produced, the means of their production shall be socially owned and democratically controlled.

In the face of the economic and political aggressions of the capitalist class the only reliance left the workers is that of their economic organizations and their political power. By the intelligent and class-conscious use of these they may resist successfully the capitalist class, break the fetters of wage slavery, and fit themselves for the future society, which is to displace the capitalist system. The Socialist Party appreciates the full significance of class organization and urges the wage earners, the working farmers and all other useful workers everywhere to organize for economic and political action, and we pledge ourselves to support the toilers of the fields as well as those in the shops, factories and mines of the nation in their struggle for economic justice.

In the defeat or victory of the working class party in this new struggle for freedom lies the defeat or triumph of the common people of all economic groups, as well as the failure or the triumph of popular government. Thus the Socialist Party is the party of the present day revolution, which marks the transition from economic individualism to Socialism, from wage slavery to free co-operation, from capitalist oligarchy to industrial democracy.

As measures calculated to strengthen the working class in its fight for the realization of its ultimate aim, the Co-operative Commonwealth, and to increase the power of resistance against capitalist oppression, we advocate and pledge ourselves and our elected officers to the following program:

COLLECTIVE OWNERSHIP

1. The collective ownership and democratic management of railroads, wire and wireless telegraphs and telephones, express services, steamboat lines and all other social means of transportation and communication and of all large scale industries.

2. The immediate acquirement by the municipalities, the States or the federal government of all grain elevators, stockyards, storage warehouses and other distributing agencies, in order to reduce the present extortionate cost of living.

3. The extension of the public domain to include mines, quarries, oil wells, forests and water power.

4. The further conservation and development of natural resources for the use and benefit of all the people:

(a) By scientific forestration and timber protection.

(b) By the reclamation of arid and swamp tracts.

(c) By the storage of flood waters and the utilization of water power.

(d) By the stoppage of the present extravagant waste of the soil and of the products of mines and oil wells.

(e) By the development of highway and waterway systems.

5. The collective ownership of land wherever practicable, and in cases where such ownership is impracticable, the appropriation by taxation of the annual rental value of all land held for speculation.

6. The collective ownership and democratic management of the banking and currency system.

UNEMPLOYMENT

The immediate government relief of the unemployed by the extension of all useful public works. All persons employed on such works to be engaged directly by the government under a workday of not more than eight hours and not less than the prevailing union wages. The government also to establish employment bureaus; to lend money to States and municipalities without interest for the purpose of carrying on public works, and to take such other measures within its power as will lessen the widespread misery of the workers caused by the misrule of the capitalist class.

INDUSTRIAL DEMANDS

The conservation of human resources, particularly of the lives and well-being of the workers and their families:

1. By shortening the workday in keeping with the increased productiveness of machinery.

2. By securing to every worker a rest period of not less than a day and a half in each week.

3. By securing a more effective inspection of workshops, factories and mines.

4. By forbidding the employment of children under 16 years of age.

5. By the co-operative organization of industries in federal penitentiaries and workshops for the benefit of convicts and their dependents.

6. By forbidding the interstate transportation of the products of child-labor, of convict labor and of all uninspected factories and mines.

7. By abolishing the profit system in government work, and substituting either the direct hire of labor or the awarding of contracts to co-operative groups of workers.

8. By establishing minimum wage scales.

9. By abolishing official charity and substituting a non-contributory system of old age pensions, a general system of insurance by the State of all its members against unemployment and invalidism and a system of compulsory insurance by employers of their workers, without cost to the latter, against industrial disease, accidents and death.

POLITICAL DEMANDS

The absolute freedom of press, speech, and assemblage.

The adoption of a gradual income tax, the increase of the rates of the present corporation tax and the extension of inheritance taxes, graduated in proportion to the value of the estate and to nearness of kin—the proceeds of these taxes to be employed in the socialization of industry.

The abolition of the monopoly ownership of patents and the substitution of collective ownership, with direct rewards to inventors by premiums or royalties.

Unrestricted and equal suffrage for men and women.

The adoption of the initiative, referendum and recall and of proportional representation, nationally as well as locally.

The abolition of the Senate and the veto power of the President.

The election of the President and the Vice-President by direct vote of the people.

The abolition of the power usurped by the Supreme Court of the United States to pass upon the constitutionality of the legislation enacted by Congress. National laws to be repealed only by act of Congress or by the voters in a majority of the States.

The granting of the right of suffrage in the District of Columbia with representation in Congress and a democratic form of municipal government for purely local affairs.

The extension of democratic government to all United States territory.

The enactment of further measures for general education and particularly for vocational education in useful pursuits. The Bureau of Education to be made a department.

The enactment of further measures for the conservation of health. The creation of an independent Bureau of Health with such restrictions as will secure full liberty for all schools of practice.

The separation of the present Bureau of Labor from the Department of Commerce and Labor and its elevation to the rank of a department.

Abolition of the Federal District Courts and the United States Circuit Courts of Appeals. State courts to have jurisdiction in all cases arising between citizens of the several States and foreign corporations. The election of all judges for short terms.

The immediate curbing of the power of the courts to issue injunctions.

The free administration of justice.

The calling of a convention for the revision of the Constitution of the United States.

Such measures of relief as we may be able to force from capitalism are but a preparation of the workers to seize the whole powers of government in order that they may thereby lay hold of the whole system of socialized industry and thus come to their rightful inheritance.

371. Municipal and State Program[28]

I. LABOR MEASURES

1. Eight-hour day, trade-union wages and conditions in all public employment and on all contract work done for the city.

2. Old-age pension, accident insurance, and sick benefits to be provided for all public employees.

[28]Drawn up by a committee appointed by the National Convention of the Socialist Party, May, 1912. See *Socialist Campaign Book*, 310–311 (1912).

3. Special laws for the protection of both men, women, and children in mercantile, domestic, and industrial pursuits.

4. Abolition of child labor.

5. Police not to be used to break strikes.

6. Rigid inspection of factories by local authorities for the improvement of sanitary conditions, lighting, heating, ventilating, and the like. Safety appliances required in all cases to protect the worker against dangerous machinery.

7. Free employment bureaus to be established in the cities to work in co-operation with the state bureaus. Abolition of contract system and direct employment by the city on all public work.

8. Free legal advice.

9. The provision of work for the unemployed by the erection of model dwellings for workingmen; the paving and improvement of streets and alleys, and the extension and improvement of parks and playgrounds.

II. HOME RULE

Home rule for cities; including the right of the city to own and operate any and all public utilities; to engage in commercial enterprises of any and all kinds; the right of excess condemnation, both within and outside the city, and the right of two or more cities to co-operate in the ownership and management of public utilities; the city to have the right of issuing bonds for these purposes up to 50 per cent of the assessed valuation, or the right to issue mortgage certificates against the property acquired, said certificates not to count against the bonded indebtedness of the city.

III. MUNICIPAL OWNERSHIP

The city to acquire as rapidly as possible, own and operate its public utilities, especially street-car systems, light, heat, and power plants, docks, wharves, etc.

Among the things which may be owned and operated by the city to advantage are slaughter houses, bakeries, milk depots, coal and woods yards, ice plants, undertaking establishments, and crematories.

On all public works, eight-hour day, trade-union wages, and progressive improvements in the condition of labor to be established and maintained.

IV. CITY PLATTING, PLANNING AND HOUSING

1. The introduction of scientific city planning to provide for the development of cities along the most sanitary, economic, and attractive lines.

2. The city to secure the ownership of land, to plat the same so as to provide for plenty of open space, and to erect model dwellings thereon to be rented by the municipality at cost.

3. Transportation facilities to be maintained with special reference to the prevention of overcrowding in unsanitary tenements and the creation of slum districts.

V. PUBLIC HEALTH

1. Inspection of food.
2. Sanitary inspection.
3. Extension of free hospital and medical treatment.
4. Child-welfare department, to combat death rate prevailing, especially in working-class sections.
5. Special attention to eradication of tuberculosis and other contagious diseases.
6. System of street toilets and public-comfort stations.
7. Adequate system of public baths, parks, playgrounds, and gymnasiums.

VI. PUBLIC EDUCATION

1. Adequate number of teachers, so that classes may not be too large.
2. Retirement fund for teachers.
3. Adequate school buildings to be provided and maintained.
4. Ample playgrounds with instructors in charge.
5. Free textbooks and equipment.
6. Penny lunches, and, where necessary, free meals and clothing.
7. Medical inspection, including free service in the care of eyes, ears, throat, teeth, and general health where necessary to insure mental efficiency in the educational work, and special inspection to protect the schools from contagion.
8. Baths and gymnasiums in each school.
9. Establishment of vacation schools and adequate night schools for adults.
10. All school buildings to be open or available for the citizens of their respective communities, at any and all times, and for any purpose desired by the citizens, so long as such use does not interfere with the regular school work. All schools to serve as centers for social, civic, and recreational purposes.

VII. THE LIQUOR TRAFFIC AND VICE

1. Socialization of the liquor traffic; the city to offer as substitute for the social features of the saloon, opportunities for recreation and amusement, under wholesome conditions.
2. Abolition of the restricted vice districts.

VIII. MUNICIPAL MARKETS

Municipal markets to be established where it is found that by this means a reduction may be secured in the cost of the necessities of life.

G. THE CASE AGAINST SOCIALISM

372. The Transition to the Socialist State[29]

BY O. D. SKELTON

The first problem that faces the socialist—how catch the hare—is primarily a question of tactics, but its solution largely determines the character and extent of the difficulties facing the collectivist commonwealth at the outset. Is the capitalist to be expropriated without indemnity, or to be offered compensation? The earlier hot-blooded demand for the expropriation of the robber rich without one jot of payment is now heard more rarely in the socialist camp. This attitude was consistent with the catastrophic view of social evolution, the view that the revolution would be "an affair of twenty-four lively hours, with Individualism in full swing on Monday morning, a tidal wave of the insurgent proletariat on Monday afternoon, and Socialism in complete working order on Tuesday." But in these post-Darwinian days this naive expectation is untenable. With the growing admission that the new order must be established by degrees, it is seen that it would be impossible to expropriate certain capitalists and leave the rest in undisturbed possession. Further, forcible expropriation without indemnity would be impossible; even were the great majority of the manufacturing proletariat won over to the policy, they could scarcely hope to overcome the determined resistance of the millions of farmers and the urban middle class.

If the other horn of the dilemma is then unanimously chosen, and the capitalists bought out at one hundred cents on the dollar, how is the condition of the poorer classes one jot improved? There will be heaped up an immense debt, a perpetual mortgage on the collective industry; rent and interest will still remain a first charge, still extract "surplus labor" from the workers. Even if collectivist management were to prove every whit as efficient as capitalistic, the surplus for division among the workers would not be increased beyond that available to-day. Indeed, it would be diminished. To-day a great part of the revenue drawn in the shape of rent and interest is at once recapitalized, and makes possible the maintenance

[29]Adapted from *Socialism: A Critical Analysis*, 182–184. Copyright by Hart, Schaffner & Marx (1911).

and extension of industry. A socialist régime could not permit the paid-off capitalists to utilize their dividends in this manner, increasing their grip on industry; they would be compelled to spend it in an orgy of consumption. All provision for capital extension would therefore have to come out of what was left of the national dividend. The last state would be worse than the first.

Recognizing this, various socialists have proposed, once the capital has been appropriated, to put on the screws by imposing income, property, and inheritance taxes which will eventually wipe out all obligations against the state. In other words, they would imitate the humanitarian youngster who thoughtfully cuts off the cat's tail an inch at a time, to save it pain. Doubtless there are, within the existing order, great possibilities of extension of such taxes for the furtherance of social reform. Possibly our withers would be unwrung if the socialistic state confiscated the multimillionaire's top hundred million by a progressive tax. But the fortunes of the multimillionaires, spectacular as they are and politically dangerous as they are, form but a small proportion of the total wealth. So soon as the tax came to threaten the confiscation of the small income as well as the great, the matter would again become one of relative physical force.

373. Socialism and Inequality[30]

BY N. G. PIERSON

Under State socialism, pure and simple, the Government of the country would assume the ownership of the instruments of production. We take it that this end might be achieved in the following manner. Just as at the present it already owns the postal system, just as in certain countries it already owns and works the railways, manufactures cigars and matches, so it might successively assume the ownership, and undertake the working of all factories and workshops, all means of transport, farms, fisheries, warehouses, and shops. In order to be able to form by degrees a staff of properly qualified officials, the State would have to be careful not to proceed with undue haste. Beginning with those branches of industry, in which no great experience or intelligence was required, it would have to proceed step by step in extending the sphere of its operations, and would have to be content if, at the end of sixty or a hundred years, it had succeeded in bringing the whole of production within that sphere. From this, however, it follows that the

[30]Adapted from *Principles of Economics,* II, 88–91. Copyright by Macmillan & Co. (1902).

transfer would necessarily have to be effected on terms of adequate compensation to the present owners. We are now leaving questions of equity entirely out of consideration, and regarding only the economic aspects of the question. During the time when the State was engaged in appropriating the instruments of production, there should be no disturbances of a nature to occasion direct distress, and such disturbances would be inevitable where sentence of confiscation was hanging like a sword of Damocles over the head of every capitalist for a number of years. The more it became evident from experience that the danger was real and no mere bogey, the worse would things grow. People would become much less inclined to save, and much more disposed to squander. The properties which the State was to take over would ultimately have got into the most melancholy condition of decay, and habits of neglect and recklessness would have become general and would be slow to disappear.

A State, which meant to become socialist, would have to do one of two things: if it offered no full compensation, it would have to take over the whole production in a very short period of time; if, on the other hand, it meant to take over the various branches of production by degrees, it would be unable to escape the necessity of offering compensation. The former alternative would be impossible, even in such a small country as Holland. The second alternative would, therefore, have to be chosen on purely economic grounds, apart from all considerations of justice. And the compensation would have to be such as would be deemed sufficient by the recipients themselves, otherwise it would fail in its object. It has been suggested that the compensation might be paid in thirty or fifty annuities. Certainly this system, like many another, could be applied; but we must clearly understand that everything which reduced the compensation would diminish the care given to such goods as the State had not yet appropriated. And it would be of the utmost importance that this care should not be relaxed, but should continue unabated up to the very end.

It would of course be possible to create a certain inducement for the owner not to neglect his property, by providing that the number or the amount of the annual payments made by way of compensation should depend upon the state of the property at the time of its transfer to the Government; it is very much to be questioned, however, whether this would prove a sufficient inducement. Every one would compare the actual advantage that accrued from saving the expense of upkeep with the possible disadvantages of the annual

payment system, and it is easy to judge what the result of the comparison would be in most cases; more especially if the payments took a form which did not commend itself to the owner, or if there were any reason to suppose that the socialist State might not fulfill its obligations.

We look further into the future; sixty, or, say, a hundred years have passed; what condition of things do we see now? What has changed and what has not?

The principal survival is the inequality, the very thing that some people found most difficulty in submitting to in the past. There are no longer any merchants, shipowners, or manufacturers, there are no landowners or bankers; but, unless the annuity system of compensation has been adopted, we find, instead, a very large number of holders of Government stock, so that there are as many owners of property as before. This class will remain and increase. For the socialistic State will have recognised—if not at once, then after being taught by bitter experience—that with growth of population, capital also must grow, and that it must grow even more rapidly than the population. The State will therefore have to encourage thrift by paying a certain rate of interest on all savings entrusted to its keeping. It will have to maintain the law of inheritance; for there can be no strong incentive to save, unless goods for consumption and claims in respect of debt can be handed down from one generation to another. We do not know if this is quite compatible with the socialistic system, but we do know that it is absolutely necessary, since the need for capital will always remain, no matter on what lines society may be organized.

The inequality thus remains; only certain of its causes disappear. Fortunes can no longer be accumulated in commerce or industry, nor does increased demand for agricultural or building land tend any longer to enrich the few at the expense of the many. But gambling on the Stock Exchange will *not* have disappeared. Even though the compensation should have taken the form of terminable annuities, it would be many years before all the bonds establishing their holders' claims to such annuities had disappeared, and it is probable that in a socialistic State these bonds would be subject to considerable fluctuations in the market. Even if all the annuities in the country itself were to have expired, there would still, no doubt, be bonds of other countries to speculate in. Besides, there will never be wanting things to serve as the subject of betting and gambling transactions. If any one expects that the socialistic State will be able to get rid of *these* causes of inequality, his optimism must be rather extravagant.

374. Some Objections to Socialism[31]

BY WILLIAM GRAHAM

To the general scheme of socialism it is easy to see many objections. The first is that nothing could be produced either in the sphere of material or intellectual production that was not pleasing to the chiefs or the heads of the departments of production. At present it is demand which determines what shall be produced, and every conceivable demand is catered to. Under collectivism production will determine demand; at least demand will have to accommodate itself to production. The state would practically control the production of immaterial things. It could print or suppress what books it pleased, because it would control all the printing presses and pay all the printers.

The next objection refers to the quantity and quality of the production. It is urged that the great stimulus to the private interests of the industrial chief being withdrawn, he will take little interest in the result. The workers will be disposed to take things easy, work in itself not being pleasant, and no one fearing dismissal under a socialist régime. Were the chiefs restricted to shares equal with the laborers, no economic incentive would be furnished them to make the output of their departments as much and as good as possible. In a word, impracticality may be written large over the collectivist scheme so far as it would largely cut down the salaries of superiors, discourage inventors, or arbitrarily dictate production.

A common objection to socialism is that under it the supply of capital to create or to prevent the deterioration of instruments of production would be insufficient, from the withdrawal of the present potent stimulus to saving in the shape of interest. Under Collectivism the new capital would take the form of a tax or a deduction from gross product. Abstinence, necessary to the accumulation of capital would not be paid for by the receipt of interest by the individual. There is reason for thinking that he therefore would refuse to sanction the tax which made his abstinence necessary.

But the commonest of all the objections to socialism is that liberty would be in danger; liberty, which, as Mill says, is next to food and drink, the most craving want. It is objected that the State being sole producer, the leaders and directors of industry might be despotic. The power of buying the things we pleased would be

[31]Adapted from *Socialism New and Old,* 162–182 (1891). This selection merely enumerates the objections to socialism; it makes no critical estimate of their validity. For the author's estimate see the reference.

narrowed, and liberty of thought and speech there could not be if the State were the sole owner of the printing presses.

Mill's main objection to socialism, however, is that under it there would be no asylum left for individuality of character. He fears that public opinion would be a tyrannical yoke; and doubts "whether the absolute dependence of each on all and surveillance of each by all would not grind all down into a tame uniformity of thoughts, feelings, and actions." We should thus, all, cast in monotonous moulds, become as like as sheep in a flock. The "general average" would become utterly weary, flat, and unprofitable.

Doubts have been frequently expressed whether culture would not be in danger under Socialism. Would the mass of the people in a democratic society, appreciate a thing they had not got, and did not know? Would they recognize the necessity of setting aside funds for its support and encouragement? Sidgwick says, "It is only in a society of comparatively rich and leisured persons that these capacities for culture are likely to be developed and transmitted in any high degree."

375. Socialism and the Factors of Production

In fervid attempts to correct the inequalities in distribution, we are very likely to overlook the social importance of production. Only what is produced can be distributed; consequently the larger the production, the greater the average distributive share. Therefore, before a scheme of social reform can win our approval, it must show either that it will not decrease production, or that the decrease will be more than balanced by gains in the distributive system. Production must not be overlooked.

The amount of the "social dividend" is contingent, among other things, upon the proportion maintained between the factors of production. The greatest steps in material progress have been associated with a decrease in the amount of labor used in proportion to the non-human elements in production. The economic importance of the Black Death lies in its decrease of the population; of the settlement of America, in its increase of natural resources; and of the Industrial Revolution in its increase of accumulated capital. In the "socialistic future" the state will find itself in the "stage of diminishing returns"; for the cry for socialism will remain an unheeded wail so long as "increasing returns" yield abundance. Relief from the pressure of population on resources cannot be found in the utilization of new lands, for no new continent will be left for exploitation. As a result the maintenance of a high standard of living can be achieved only, either by a strict limitation of numbers, or by

an increase in capital. It is necessary, therefore, to inquire what influence socialism is likely to have upon the increase or decrease of these factors of production.

To be quite fair, let us assume that socialism, once achieved, will realize the dreams of its advocates: that it will substantially reduce the inequalities in the ownership of wealth, and materially increase the incomes of the classes at the bottom. Granted a temporary increase, the important question is whether these incomes can remain permanent. We have no reason for thinking that socialism will make us creatures of different passions, and that in this ideal state maids will cease to look fair to youths. The larger income will make marriage possible to many who cannot now "afford it." For others marriage will be possible at earlier ages. The result will be an increase in the birth rate. Likewise the larger incomes and the temporarily better way of living should mean for a time a decrease in the rate of infant mortality. Both causes would tend to increase the number of laborers in the next generation, to lower the margin of industry, and to establish lower rates of wages, and lower standards of living. There is no reason why this tendency should not be continued until wages and standards were as low as—or lower than—under the older system. The conditions of the "workers" would, therefore, be improved only during the transition period during which the "surplus" wealth of the "classes" was being transferred. In the end the lower classes would be no better off. The only appreciable gain would be in a larger number of souls to be saved.

But what about the increase of capital? Under our present system thrift is voluntary, not compulsory. Society relies for its capital upon the temptation to accumulation offered by private property and by inheritance and the opportunity for saving residing in the unequal distribution of income which showers upon the privileged few more than they can spend and forces large aggregates of wealth to be reinvested in the productive process. A stratifying society presents ideal conditions for the accumulation of capital. Democratic equality and rigid class distinction are alike inimical to the rapid piling up of productive wealth. However, if individual thrift proves inefficient, the socialist state is in position to substitute compulsory thrift. Let us see what use a socialistic society can make of each of these methods.

Voluntary thrift would not suffice. If no interest were offered on savings, and moral encouragement alone was used, the tangible wealth accumulated would be negligible. If interest were offered,

either by a payment on bank deposits or by the sale of interest-bearing bonds, some capital would be formed. But if inheritance were not allowed, the disposition to spend would increase with advancing years, and a rather high rate of interest would be necessary to secure adequate results. If inheritance were allowed, the system would be very similar to our own. In fact these methods involve making use of the individualistic incentives to thrift. But, without raising this question, the chief incentives to individual accumulation would be absent. The large fortunes, which are the basis of so much current accumulation, would be no longer present. Again, the emphasis which a socialistic state would place upon life in the present, together with the greater equality in station and possessions, would cause expenditure closely to approach income.

Yet, even if individual thrift were inadequate, it must be admitted that the state could compel accumulation. Under a money economy, it could accomplish this, either by placing a tax upon the income of its citizens with the object of paying for the production of capital goods, or by raising the prices of consumptive goods and using the surplus in the same way. Without a money economy, the same object could be effected by a simple distribution of men between occupations turning out "present" and "future" goods. An analogy is found in the distribution of work in military societies, where a part of the labor force is sent out to fight and a part is kept at home to supply the fighters with munitions and provisions. But *could* the state enforce accumulation? Suffrage would be democratic. Democracy is a short-sighted and wasteful institution that is too much of a luxury for any country save one with large and virgin resources. Under our system little attention is given to the necessity of conserving the supply of capital. Recall, if you can, a consideration of this question in a political speech. Socialists show little appreciation of the rôle of capital in production. They fail to appreciate the importance of keeping up its supply. It seems extremely doubtful whether a party committed to an increase of capital, attended as such an increase necessarily is by a sacrifice in immediate consumption, could survive in a socialistic state. The opposing party, promising immediate prosperity and higher incomes—of course at the expense of the future—would be almost certain to enjoy popular support. Socialism, therefore, still further threatens to lower the margin of industry, wages, and the standard of living, by failure to induce a sufficient supply of capital.

It must not be denied that these difficulties are not insuperable. The lower classes may, in course of time, learn to control their numbers. The electorate may learn that individual and immediate

gain must often be sacrificed if more ultimate social good is to be achieved. It may even learn the importance of keeping up the supply of capital. But as yet these lessons have not been learned. And when society attains this measure of wisdom, the problem of the "classes at the bottom" will have lost much of its importance. The severity of their distress will have disappeared. The magic of socialism will be no longer necessary. In short, socialism is too individualistic and too short-sighted to meet our needs.

H. SOCIAL PANACEAS

376. Stable Money and the Future[32]

BY GEORGE H. SHIBLEY

With a return to the more stable bimetallic standard of prices and with the principle established that "stability in the measure of prices (exchange value) is the desideratum," *the people of the United States will insist that the measure be kept practically unfluctuating through the government controlling the volume of paper money.* THIS WILL MAKE STABLE THE MEASURE OF PRICES THROUGHOUT THE SPECIE-USING COUNTRIES. In a short time, then, the principle will become deeply rooted in the ethics of *all the advanced peoples* that stability in the measure of prices is just—right. Then shall we have such co-operation among nations as will keep specie in the money of the several countries, and by so doing *keep an equilibrium in the export and import prices of these countries through using the specie in paying balances in trade.*

With a stable measure of prices there will be added "a wholly new degree of stability to social relations." This is equivalent to saying that with general prices stable *there will be steady employment and the consequent good times and the dropping away of nearly all the tariff wars.* THEN WILL THE DISARMING OF EUROPE SPEEDILY COME ABOUT AND THE ARBITRATION OF ALL FUTURE DIFFERENCES BE AGREED UPON BY THE LEADING NATIONS. AND WHEN THIS OCCURS THE LESSER NATIONS WILL BE COMPELLED TO SUBMIT THEIR DISPUTES TO ARBITRATION.

This is not visionary. It is the direction toward which past events point. Are we to progress? Reader, you are one of the factors. Is it in you to help along the car of progress?

[32]Adapted from *"The 50 Per Cent Fall in General Prices, the Evil Effects, the Remedy," "Bimetallism at 16 to 1, and Governmental Control of Paper Money, in Order to Secure a Stable Measure of Prices,"* in *Stable Money: Monetary History, 1850–1896, 722–723.* Copyright by the Stable Money Publishing Co. (1896).

377. The Way Out[33]

BY JOHN RAYMOND CUMMINGS

In the following pages I undertake to prove these propositions:

That there is a natural money.

That its adoption will make panics impossible.

That after a term of years natural money will bring our banking system to such condition that every bank will be able to pay all its obligations instantly. Banks will then be the accountants, custodians, and clearing-houses for all the people.

That in the course of time (probably within fifty years) natural money will put all business on a cash basis.

That in a like period the interest rate for property loans will fall to 1 or 2 per cent, and probably will disappear from money loans.

Natural money will enable the government to take over all the land and all the privately owned public utilities on terms very liberal to present owners, without issuing a bond and without hardship and injustice.

It will enable the government to build during the same period a million miles of highway at a cost of $10,000 the mile.

To irrigate and drain a large proportion of the area needing irrigation and drainage.

To develop tens of millions of horse power from water and distribute it throughout the country.

To develop internal waterways on a scale hitherto unattempted and undreamed of.

It will raise wages and end strikes and lockouts.

It will establish natural wages and secure equity as between employers and employees.

It will pay off the government debt and make future debt impossible.

It will end our present industrial warfare and bring now discordant classes into harmonious co-operation, inaugurating an era of progress and prosperity such as the world has not even conceived of.

378. Universal Federation[34]

BY KING C. GILLETTE

"World Corporation" will result in a new civilization, new in every part of its structure of mind and matter. The whole aspect

[33]Adapted from *Natural Money: The Peaceful Solution,* 5–6. Copyright by the Bankers Publishing Co. (1912). See also the author's *Social Autonomy: The New Economic Dispensation.*

[34]Adapted from *World Corporation,* 216–219. Copyright by the author (1910).

of nature will assume new meanings and ends, for it will be seen by new senses of interpretation. With our present individual knowledge, we cannot conceive it; or, if we could, we would not believe it possible.

Who is there wise enough to predict what will result after "World Corporation" has been launched, after the people realize what its success will mean, what the outcome will be? Who can foresee to what degree of enthusiasm the people will rise in their desire and hope for emancipation! Man is emotional, and quickly carried forward upon waves of popular excitement; and it is these great tidal waves of emotion that mark the revolutionary changes throughout history. The gradual growth of a thought, an idea which has within it a germ of human progress, finds its culmination in emotion, and change is brought about quickly and decisively.

The thought that humanity is on the borderland of a new system, a new epoch-making period of the world's history, is spreading from mind to mind, and rapidly changing preconceived ideas of life and man's relation to man and to nature. The fever of excitement is already beginning to course through the veins, and only waits on conviction to burst into flame.

The elimination of competition by the centralization of industry into Corporations and Trusts, and its resulting economies, has set the individual to thinking. He begins to doubt his old belief that competition is necessary to progress; he asks himself questions and seeks the answers in his own mind, and, when these answers are not forthcoming, he asks others. Discussions are heard on every hand in regard to corporations and trusts, and newspapers and magazines are largely devoted to this same subject. All are asking: What is the outcome of this evolution that is taking place? What is a Corporation? What is a Trust? Are they not miniature corporate governments of capital and individuals? And gradually the thought begins to dawn—the thought which is going to rise to a culminating point within the next few years, and carry men off their feet; which will crowd out every selfish idea—THE THOUGHT THAT THE EMANCIPATION OF THE HUMAN RACE IS IN OUR HANDS. By a single stroke humanity can change a system of extravagance, disorder, injustice, and crime into one of order, equity, and virtue. Nothing stands in the way; for where is there any difference between the control of a part of industry by a few individuals and the control of all industry by all? This is the thought that will be acted upon; this is the thought that will make men forget self and pour their minds and wealth with equal prodigality into the treasury of "World Corporation."

Enthusiasm is the foundation of power which centralizes force and destroys every barrier between itself and its purpose. It makes an army out of scattered parts. It leads to "World Corporation."

379. A New Earth[35]

BY L. G. CHIOZZA MONEY

It would be a great pity if anyone were to imagine that the changes necessary to secure the just reward of all forms of labor are either difficult to effect or likely to cause dislocation in the making. The greater number of our industrial concerns are already shaped in the form of limited liability companies, the shareholders in which are dumb, while the management is in the hands of paid officials. The reform which needs to be effected is to substitute the community at large for the dumb shareholders. Management, ability, invention, would be properly rewarded, as they are now rewarded in some cases, and as they are not now rewarded in many cases. The only change would be the gradual substitution of the community for the shareholders, and the consequent disappearance of unearned incomes. Such portions of the product as were necessary for application as new capital would be so applied by the community. For the rest, the whole of the product would go to labor. Saving, the necessary saving, without which labor would go without tools, would be simply and automatically effected, and capital would take its true and rightful place as the handmaiden of labor.

Let us not go farther without a vision and a hope. That vision, that hope, is not of a regimented society, but of a community relieved from nine-tenths of its present irksome routine and carking care. If the individual is to be set free it can only be in a society so organized as to reduce the labor employed in the production of common necessities to a minimum. The minimum cannot be secured without the organization of each of the great branches of production and distribution. Common needs can be satisfied with little labor if labor be properly applied. The work of a few will feed a hundred or supply exquisite cloth for the clothing of fifty. The work for a few hours per day of every adult member of the community will be ample to supply every comfort in each season to all. Thus set free, the lives of men will turn to the uplifting, individual work which is the pride of every craftsman. The dwellings of men will contain not only the socialized products within common reach, but the proud individual achievements of their inmates. The

[35]Adapted from *Riches and Poverty*, 324–329. Published by Methuen & Co. (1905).

simple and beautiful clothing of the community will chiefly be made of fabrics woven in the socialized factories, but it will often be worked by the loving hands of women. A happy union of labor economized in routine work and labor lavished upon individual work will uplift the crafts of the future and the character of those who follow them. The abominations of machine-made ornament will disappear, and art be wedded to everyday life. Each new invention to save labor in mining, or tilling, or building, or spinning, will be hailed with joy as a release from toil and a gift of more time in which to do individual work.

The inventor, the originator, now unhappily compelled to hunt for a capitalist and bow low his genius before some individual distinguished only for that gift of acquisitiveness, that business ability, which is the lowest attribute of mankind, will see his idea put to the test and reap not unholy gains but the honor of his fellows if it is not found wanting. The painter, no longer compelled to paint portraits of the rich and not necessarily beautiful, will ally his gifts with the common life of men and be carried in triumph before the enduring monuments of his genius. The organizer, the man of arrangement, will be invited to exercise his talent, not in overreaching and despoiling his fellows, but in planning their welfare in a thousand new schemes of development.

No host of wasteful workers will be found in the industrial camp. Accounts will be simple and clerks few. No travelers, agents, or touts will be needed to push doubtful commodities. The sham and the substitute will be found only in museums. It will be obviously ridiculous to employ any but good materials, for labor can only be economized by producing the things which are the best of their kind. Policies of insurance, those typical documents of a community of prey, will be read in the public archives with much the same feeling as we now read a warrant for the burning of a Bruno. The young men who now waste their time in ruling up books in banks and insurance offices or in serving writs will find manly and useful work. The production of commodities will be commensurate with the labor put forth, unemployment will be one of the few crimes known to the statute-book, and last, but not least, the economic dependence of woman will cease.

The attainment of such ends will only be difficult as long as we refuse to apply scientific methods to the ordering of common affairs. It is in the domain of politics alone that men refuse to apply first principles to the solution of problems. The mental daring which has accomplished so much in engineering, in astronomy, in

surgery, in every department of science, is replaced in the sphere of politics by a timorous tinkering with admitted evils. With things the scientist has worked marvels in a single century. With those marvels the politician has done little. The scientist has applied his skill to locomotion; the politician has refused to avail himself of that skill in order to distribute the population healthily. The scientist has stated the conditions of health; the politician has refused to create those conditions. The scientist has supplied the tools; the politician has neglected to take them up.

The problem of riches and poverty is of the simplest. It presents none of the difficulties which attach to the measurement of the mass of the sun, or the treatment of such a disease as cancer. Science has presented us with such instruments that we can easily create a tremendous superfluity of commodities if we choose to do so. We know how to produce; we know how to transport the results of our production. The appliances at our command could furnish many more foot-tons of work than are needed to give proper housing, suitable clothing and good food to every unit of the community. There is here no impenetrable secret; we have read enough in the book of Nature to control her forces to effect; our power of production is not too small, but already greater than our need. If invention went no farther, if science now came to a standstill, we should have tools more than adequate to abolish poverty.

Unfortunately the politicians and the economists have never discussed the question of poverty from this point of view. Volumes have been written on such subjects as "rent," "interest," or "value," but nothing has been done to enquire how much work is needed to feed, clothe and house a community, and how best that work may be accomplished. In designing an engine, the man of science considers the work to be done and the known means to do it. For want of that agreement and determination, for want, that is, of a wise collectivism, the greater number of our people are poor. It is a world of service which a civilization would substitute for a world of serfdom and pain. But if, realizing that the world has no room for the idle, the people would rise to a freedom only bounded by the knowledge of and necessity for collective decision, then there is the broadest avenue for hope and the clearest call to action. The achievements of those who are gone, these are the inheritance of the people. The only true riches of the nation, men and women, these are the people themselves. The people have but to will it, and we set our faces toward a civilization.

I. ECONOMICS AND THE FUTURE OF SOCIETY

380. Wanted: A New Symbolism[36]

BY ALVIN S. JOHNSON

The aristocracies have vanished, we shall never know them again. The work of supplying the world, now and for the future, has become one of such complexity, requiring so broad a diffusion of general intelligence, that merely personal dignitaries can never again acquire their ancient influence over man's mind, their ancient hold on his conduct. There remains in the world only the common man. Differences in natural endowment, in culture and in wealth persist; but these can not alter the fact of a fundamental democracy. So far as we serve, we serve the common man.

But—and this we must fix in our minds—the common man of today is not the obscure citizen of earlier epochs. The same commercial process which has broken down the earlier class organization has produced a differentiation in economic structure, an interdependence of parts, which compels us to conceive of economic society as a living organism. The common man of today compares with his prototype of yesterday as the cell in an organized tissue compares with the cell in the half-coherent mass of protoplasm. The functions of the individual are now organic functions, far transcending the narrow confines of his own personality. The pilot, the engineer, the steel worker, the coal-heaver, are significant, not in themselves, but in the social work they perform. With the progress of time, a constantly increasing share of the population assumes functions essentially social.

In serving the common man, then, we are performing a work far more worth while than that of supplying the needs of an individual, of whatever personal worth. We are serving a social functionary in the last analysis, society itself. Our work, then, is significant or meaningless according as we conceive society itself as worthy or not. If we are constrained to think of our society as ninety million persons, chiefly knaves and fools, the service will be irksome, to be shirked, if possible. If the society we serve is full of brutality and injustice, disfigured with poverty and ignorance, corrupted with cynicism and self-indulgence, it can not inspire us with loyalty in its service. The exhausting toil of the long day, the hopeless misery of the sweatshop, the sordid depravity of he slum, can not much longer cumber the earth if society is to command the best efforts

[36]Adapted from "An Ethical Aspect of the New Industrialism," in the *South Atlantic Quarterly,* XII, 9–11. Copyright (1912).

of its servitors. We are not now concerned with the question of justice to those who live and toil in wretchedness. That question is worth considering in its proper place; it is sufficient here to indicate that, for the orderly progress of industry in the coming era, we must remove conditions that destroy our faith in society. Men in the service of society will give their best efforts only if society is worth serving.

But it is not sufficient that society should be worth serving, the worth of society and the worth of work in its service must be given concrete expression if these values are to mold men's conduct. To-day these values are perceived, but dimly; they exercise an influence in limited fields. Men in the service of the railways, as a rule, endeavor honestly to realize the ideal of continuous and adequate service. Coal miners are loth to strike at the opening of winter. Their social function plays a part—though unfortunately a minor part—in controlling their economic policy. As a rule, however, the servants of society, employers and employees alike regard any peculiar dependence of society upon their services as an element strengthening their bargaining position, a peculiar opportunity for gain. The wheat is falling from the head; the fruit is rotting on the tree; an excellent time for a concerted demand for higher wages! An industrial city has been built upon the expectation of the continuous supply of material: what an opportunity for the material producers to levy tribute! A whole nation lives from day to day upon the fruits of its mechanical industries; coal is its bread. A dazzling prospect of gain lies before those who can possess themselves of the mastery of the mines. Responsibility of function is opportunity for gain; so prevalent is this conception that when we assert that the use of responsibility for gain, not for service, is a species of treason, we seem to be harking back to the middle ages. And so we are. But there is much in the mediæval industrial spirit that is eternal: much that must be restored to our society after the disorders of an era of expansion and exploitation.

The worth of society and of work in its service—these are the social values that must govern in the new industrialism. As mere abstract ideas they can have no potency. As abstract ideas the kings and nobles of an earlier age had no potency; they were invested with the power of social values by the work of architects and sculptors, poets and philosophers. The poets, as it were, created kings and knights—ideals toward which actual rulers and nobles sought to elevate themselves. Architects and sculptors, painters and poets, can transform social man and society into values capable of dominating industry. The task may be difficult; but it

is no more difficult than that of vesting glory in the House of Atreus or the House of Bourbon.

The ultimate need of the new industrialism, then, is not more trained skill, more applied science—although these two are good things in their way—but artists and poets who shall translate society and social man into terms of values worth serving. When these have done their work we shall hear less of the deterioration of labor and the abuse of responsibility, of industrial decay and social corruption, of irreconcilable conflict and threatened revolution. A revolution will have been accomplished: a revolution in ideals and in values.

381. The Banquet of Life[37]

BY WILLIAM GRAHAM SUMNER

In 1886 a society published a set of analytical topics covering the field of social science. Among the topics which the student is invited to discuss is this: "The Banquet of Life, a Collation or an Exclusive Feast." The antithesis which is intended is undoubtedly that between a supply for all and a supply for a limited number. If there is any banquet of life, the question certainly is, whether it is set for an unlimited or for a limited number.

If there is a banquet of life, and if it is set for an unlimited number, there is no social science possible or necessary; there would then be no limiting conditions on life, and consequently no problem of how to conquer the difficulties of living. There would be no competition, no property, no monopoly, no inequality. Fresh air and sunlight are provided gratuitously and superabundantly, not absolutely, but more nearly than any other material goods, and therefore we see that only in very exceptional circumstances, due to man's action, do these things become property. If food were provided in the same way, or if land, as a means of getting food, were provided in the same way, there would be no social question, no classes, no property, no monopoly, no difference between industrial virtues and industrial vices, and no inequality. When, therefore, it is argued that there is, or was, or ought to be, a banquet of life, open to all, and that the fact that there is no such thing now proves that some few must have monopolized it, it is plain that the whole notion is at war with facts, and that its parts are at war with each other.

The notion that there is such a thing as a boon of nature, or a banquet of life, shows that social science is still in the stage that

[37]Adapted from "The Banquet of Life," reprinted in *Earth-Hunger and Other Essays,* 217–221, from the *Independent,* XXXIX, 773. Copyright by the *Independent* and Yale University Press (1887).

chemistry was in when people believed in a philosopher's stone; or medicine, when they believed in a panacea; or physiology, when they believed in a fountain of youth, or an elixir of life. Many of the phenomena of the present seem to indicate that this group of facts is just coming under the dominion of science. The discord and confusion which we perceive are natural under the circumstances. Men never cling to their dreams with such tenacity as at the moment when they are losing faith in them, and know it, but do not yet dare to confess it to themselves.

If there was such a thing as a banquet of life, open to all comers, to which each person was entitled to have access just because he was born, and if this right could be enforced against the giver of the banquet, that is, against nature, then we should have exactly what we want to make this earth an ideal place of residence. We should have, first of all, a satisfaction which cost no effort, which is the first desideratum of human happiness, and which we have not hitherto ever seen realized at all except in the narrow domain of luck. Secondly, we should have abstract justice in nature, which we have never had yet, for luck is of all things the most unjust. We should also have equality, which hitherto we have never found in nature. Finally, we should have a natural right which could be defined and enforced, not against men, but against nature—the trouble with natural rights hitherto has been that they could not be defined, that nature alone could guarantee them, and that against nature they could not be enforced.

If we take the other alternative and conceive of the banquet of life as a limited feast, then we see at once that monopoly is in the order of nature. The question of weal or woe for mankind is: what are the conditions of admission? How many are provided for? Can we, by any means open to us, increase the supply? But when we take the question in this form we see that we are just where we and our fathers always have been; we are forced to do the best we can under limited conditions, and the banquet of life is nothing but a silly piece of rhetoric which obscures the correctness of our conception of our situation.

When men reasoned on social phenomena by guessing how things must have been in primitive society, it was easy for them to conceive of a "state of nature" or a "golden age"; but, as we come to learn the facts about the primitive condition of man on earth we find that he not only found no banquet awaiting him here, and no natural rights adjusted to suit him, but that he found the table of Nature already occupied by a very hungry and persistent crowd of other animals. The whole table was already occupied—there

was not room for any men until they conquered it. It is easy for anyone now to assure himself that this is the true and only correct notion to hold on that matter. If land ever was a boon of Nature to anybody it was given away to the plants and animals long before man appeared here. When man appeared, he simply found a great task awaiting him: the plants and animals might be made to serve him, if he could conquer them; the earth would be his if he could drive off his competitors. He had no charter against Nature, and no rights against her; every hope in his situation had an "if" in it—if he could win it.

We look in vain for any physical or metaphysical endowment with which men started the life of the race on earth. We look in vain for any facts to sustain the notion of a state of primitive simplicity and blessedness, or natural rights, or a boon of material goods. All the facts open to us show that man has won on earth everything which he has here by toil, sacrifice, and blood; all the civilization which we possess has been wrought out by work and pain. All the rights, freedom, and social power which we have inherited are products of history. Our institutions are so much a matter of course to us that it is only by academic training that we learn what they have cost antecedent generations. If serious knowledge on this subject were more widespread, probably we should have a higher appreciation of the value of our inheritance, and we should have less flippant discussion of the question: What is all this worth? We should also probably better understand the conditions of successful growth or reform, and have less toleration for schemes of social reconstruction.

Civilization has been of slow and painful growth. Its history has been marked by many obstructions, reactions, and false developments. Whole centuries and generations have lost their chances on earth, passing through human existence, keeping up the continuity of the race, but, for their own part, missing all share in the civilization which had been previously attained, and which ought to have descended to them. It is easy to bring about such epochs of social disease and decline by human passion, folly, blunders, and crime. It is not easy to maintain the advance of civilization; it even seems as if a new danger to it had arisen in our day. Formerly men lived along instinctively, under social conditions and customs, and social developments wrought themselves out by a sort of natural process. Now we deliberate and reflect. Naturally we propose to interfere and manage according to the product of our reflection. It looks as if there might be danger soon lest we should vote away civilization by a plebiscite, in an effort to throw open to everybody this imaginary "Banquet of Life."

382. Progress and Discontent[38]

BY THOMAS BABINGTON MACAULAY

It may at first sight seem strange that society, while constantly moving forward with eager speed, should be constantly looking backward with tender regret. But these two propensities, inconsistent as they may appear, can easily be resolved into the same principle. Both spring from our impatience of the state in which we actually are. That impatience, while it stimulates us to surpass preceding generations, disposes us to overrate their happiness. It is, in some sense, unreasonable and ungrateful in us to be constantly discontented with a condition which is constantly improving. But, in truth, there is constant improvement precisely because there is constant discontent. If we were perfectly satisfied with the present, we should cease to contrive, to labor, and to save with a view to the future. And it is natural that, being dissatisfied with the present, we should form a too favorable estimate of the past.

In truth, we are under a deception similar to that which misleads the traveler in the Arabian desert. Beneath the caravan all is dry and bare; but far in advance, and far in the rear, is the semblance of refreshing waters. The pilgrims hasten forward and find nothing but sand an hour before they had seen a lake. They turn their eyes and see a lake where, an hour before, they were toiling through sand. A similar illusion seems to haunt nations through every stage of the long progress from poverty and barbarism to the highest degrees of opulence and civilization. But, if we resolutely chase the mirage backward, we shall find it recede before us into the regions of fabulous antiquity. It is now the fashion to place the Golden Age of England in times when noblemen were destitute of comforts the want of which would be intolerable to a modern footman, when farmers and shopkeepers breakfasted on loaves, the very sight of which would raise a riot in a modern workhouse, when to have a clean shirt once a week was a privilege reserved for the higher class of gentry, when men died faster in the purest country air than they now die in the most pestilential lanes of our towns, and when men died faster in the lanes of our towns than they now die on the coast of Guiana. We, too, shall, in our turn, be outstripped, and in our turn be envied. It may well be, in the twentieth century, that the peasant of Dorsetshire may think himself miserably paid with twenty shillings a week; that the carpenter at Greenwich may receive ten shillings a day; that laboring men may be as little used to dining without meat as they now are to eat rye bread; that sani-

[38]Adapted from *History of England,* I, chap. iii (1848).

tary police and medical discoveries may have added several more years to the average length of human life; that numerous comforts and luxuries which are now unknown, or confined to a few, may be within the reach of every diligent and thrifty workingman. And yet it may then be the mode to assert that the increase of wealth and the progress of science have benefited the few at the expense of the many, and to talk of the reign of Queen Victoria as the time when England was truly merry England, when all classes were bound together by brotherly sympathy, when the rich did not grind the faces of the poor, and when the poor did not envy the splendor of the rich.

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